

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)

RATE AND SERVICE CHANGES)

TO IMPLEMENT BASELINE)

NEGOTIATED SERVICE AGREEMENT)

WITH BOOKSPAN)

Docket No. MC2005-3

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POSTAL RATE COMMISSION

In the Matter of:)
)
RATE AND SERVICE CHANGES)
TO IMPLEMENT BASELINE) Docket No. MC2005-3
NEGOTIATED SERVICE)
AGREEMENT WITH BOOKSPAN)

Room 200
Postal Rate Commission
901 New York Avenue, N.W.
Washington, D.C.

Volume 3
Thursday, October 20, 2005

The above-entitled matter came on for hearing pursuant to notice, at 9:35 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
HON. TONY HAMMOND, VICE-CHAIRMAN
HON. DAWN A. TISDALE, COMMISSIONER

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C O N T E N T S

WITNESSES APPEARING:

MATTHIAS EPP
ROBERT POSCH

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P R O C E E D I N G S

(9:35 a.m.)

CHAIRMAN OMAS: Good morning, everyone.

Again, good morning and welcome. Today we continue hearings to receive testimony in Docket MC2005-3. Two witnesses are scheduled to appear today, Robert Posch and Matthias Epp.

Yesterday the Office of Consumer Advocate indicated that it might want the opportunity to cross-examine Witness Epp concerning materials subject to protective conditions. After cross-examination of Witness Epp on all other matters has been completed I will provide the Office of Consumer Advocate with the opportunity to renew this request.

Does anyone have a procedural matter to discuss before we begin today?

MR. VOLNER: Mr. Chairman, Ian Volner for Bookspan. We have several preliminary matters that we'd like to address very briefly.

The first is the day before yesterday the Office of Consumer Advocate filed a motion to compel an answer to a POIR inquiry which we thought we had answered. At the appropriate time, and it will not be now, I'm going to move to dismiss that motion to compel as moot, and my only purpose in raising it with

1 you now is to explain why it is moot and not to ask
2 for a ruling right now.

3 The questions that we were asked to answer
4 said essentially -- not essentially; literally -- that
5 we were to assume that rates were to remain at
6 "current levels." The response that the witness
7 provided did just that. It assumed no rate increase
8 because rates at current levels do not yet have a rate
9 increase, and it further assumed no NSA.

10 If we misunderstood the questions it was
11 entirely my fault personally because it seemed to me
12 that rates at current levels meant as things stand
13 today.

14 I'm not altogether sure that we
15 misunderstood the questions because shortly thereafter
16 the OCA propounded a question which we also answered.
17 The OCA's question was OCA/Bookspan-T-2-13 in which
18 she spelled out explicitly what she wanted, which was
19 not at current levels. We were asked to assume no
20 rate increase, but assume the existence of an NSA.

21 We answered that question, and I noticed
22 that it was not designated for the record.
23 Nonetheless, the whole procedural dispute is moot
24 because Witness Epp is here today, and I am perfectly
25 prepared to allow the OCA to ask whatever questions

1 she wants of him on whatever assumptions she wants.

2 We have worked very hard in this case to be
3 as forthcoming as we possibly could. We've answered
4 questions where we had information even if we didn't
5 have it in the format demanded. We have told the
6 Commission and the OCA and all of the other parties
7 when we do not have information we tell them why we do
8 not have it. When we possibly could, we have put the
9 information onto the public record.

10 Where it was plainly of a competitive nature
11 we've asked that it be put under seal. That was done,
12 and we have had no reservations about the integrity of
13 that process.

14 There is something unworldly about being
15 asked to assume the existence of an NSA which does not
16 now exist, but the nonexistence of a rate increase in
17 a proceeding where the record is closed, the matter is
18 subjudicially before this Commission, and some of us
19 think there might be a decision in the fairly near
20 future. Nonetheless, I am prepared to allow the OCA
21 to question as she will. The one thing I will not do
22 is ask my witness to invent numbers.

23 For those reasons, at the appropriate time I
24 think the motion to compel should be dismissed as
25 moot. We will file a brief summary of what I just

1 said early next week, and I ask you not to rule on the
2 motion at least until we've had a chance to submit
3 that statement.

4 The other two matters are fairly --

5 MS. DREIFUSS: Mr. Chairman, may I respond
6 to that first matter before Mr. Volner continues with
7 the second?

8 I think the presiding officer was very clear
9 in the request. I don't know why Mr. Volner
10 misunderstood it. It was clear that the presiding
11 officer was looking for two sets of volume estimates,
12 and Mr. Epp provided only one.

13 I note Mr. Epp's answer was a little testy
14 in that he said you're asking me to create an
15 artificial estimate. Nevertheless, he did that, and I
16 guess what you asked him to do in the case of after
17 rate volume estimates involves very much the same
18 process.

19 Now, Mr. Volner says he's not going to
20 invent numbers, and it's numbers that I'm after. If
21 Mr. Epp is prepared to give me numbers on the stand
22 then I can question him about it. If he's not
23 prepared to give me numbers then there's really not
24 any point in going further with that.

25 I'll give it a try though. I will certainly

1 ask Mr. Epp if he's got the estimates with him today.
2 If he does not then I won't pursue it. I'll just
3 await your ruling.

4 Thank you.

5 MR. VOLNER: I will rejoin in performance of
6 time. Let's go to the second matter because that also
7 requires some further developments in this proceeding.

8 Yesterday the OCA did two things. First,
9 she introduced into the record a cross-examination
10 exhibit which --

11 MS. DREIFUSS: May I interrupt for just a
12 moment?

13 CHAIRMAN OMAS: Will you allow Mr. Volner to
14 finish, please?

15 MS. DREIFUSS: Certainly.

16 MR. VOLNER: The Chair quite properly
17 admitted it into the record and asked the witness, who
18 was not prepared to answer at the time understandably,
19 to do so within a specified period of time. I don't
20 know what that period of time is.

21 The problem is that that cross-examination
22 builds from testimony and indeed cites to testimony of
23 Mr. Epp, and it is unclear to me whether the exhibit
24 is intended to be directed to the testimony of the
25 Postal Service witness or is intended to be directed

1 to the testimony of Mr. Epp, who is now on the stand.

2 I discussed this matter with the Office of
3 Consumer Advocate before we began, and I suggested
4 that I might like to ask some questions on redirect on
5 this subject. She has indicated she doesn't intend to
6 take it up in direct, and quite properly the purpose
7 of redirect is to rebut or to deal only with matters
8 that have been raised on cross and so I'm not going to
9 seek redirect on that subject.

10 It does, however, raise very serious legal
11 and practical questions, and we will deal with those
12 at a later point in this proceeding.

13 My final matter is this. Witness Posch's
14 testimony has been submitted to the Commission. He's
15 been subjected to discovery. No party, including the
16 Office of Consumer Advocate, so far as we could
17 determine asked for cross-examination of him.

18 Nonetheless, to make sure that nothing went
19 awry Mr. Posch is here, and should the OCA or any
20 other Intervenor or the Commission wish to ask him
21 questions we're prepared to put him on the stand when
22 Mr. Epp is done.

23 CHAIRMAN OMAS: Thank you, Mr. Volner, and
24 thank you for your statements. The Chair appreciates
25 that.

1 Ms. Dreifuss?

2 MS. DREIFUSS: I apologize to Mr. Volner for
3 interrupting him. I thought he had actually made a
4 factually incorrect statement, but I'll just deal with
5 it at this time. That's why I started to interrupt
6 him.

7 OCA's cross-examination exhibit was not only
8 not specifically as an exhibit made part of the
9 record; it wasn't even made part of the transcript.
10 It really simply amounted to a series of questions.

11 Really probably my calling it a cross-
12 examination exhibit raised alarms that were
13 unnecessary. It was really just an aid in the hearing
14 room. I did not hand any copies to the reporter
15 yesterday, so it was just an aid for everybody in the
16 hearing room to follow what we were doing.

17 MR. VOLNER: Mr. Chairman? Then I withdraw
18 my comment. I didn't understand what had happened
19 here. The issue may arise at a later point.

20 CHAIRMAN OMAS: Thank you, Mr. Volner.
21 Thank you, Ms. Dreifuss.

22 MS. DREIFUSS: Okay. If I could just add
23 one further statement to reassure Mr. Volner?

24 It really amounted to no more than a series
25 of questions. Witness Yorgey had an opportunity to

1 look down at a sheet of paper and see the numbers I
2 was referring to and where I got them, and in fact you
3 can be comfortable that Postal Service counsel did a
4 very thorough job of testing all the sources that were
5 cited in my questioning of Witness Yorgey.

6 That's really all I have to say about that.
7 Thank you.

8 MR. REITER: If I may?

9 CHAIRMAN OMAS: Mr. Reiter?

10 MR. REITER: Scott Reiter for the Postal
11 Service.

12 We're left in the rather uncomfortable and
13 difficult position of having been asked to have our
14 witness basically tell you what's wrong I think is a
15 fair way to summarize it with the OCA's cross-
16 examination exhibit, which includes numbers of Mr.
17 Epp.

18 We can still attempt to do that, but I
19 frankly think that it puts a very unfair burden on us
20 since we --

21 CHAIRMAN OMAS: Well, I know it does, but
22 you did commit to it yesterday. If I may please ask,
23 I know it's a burden, but if you would do it it would
24 make things a little bit easier. We'd appreciate it.
25 The Chair would appreciate it.

1 MR. REITER: All right. We will continue to
2 attempt to do that.

3 CHAIRMAN OMAS: Thank you, Mr. Reiter.

4 MR. REITER: I might also suggest that if
5 the OCA feels that there's information or some sort of
6 information I guess on that exhibit or that it proves
7 a point that they feel is important, since I
8 understand they will be filing testimony, that that
9 might be a better vehicle to get that into the record,
10 but we will do what we can to give you our views.

11 CHAIRMAN OMAS: I would appreciate it.
12 Thank you very much.

13 Is there anything else?

14 (No response.)

15 CHAIRMAN OMAS: Mr. Volner, would you please
16 introduce your witness?

17 MR. VOLNER: I'm sorry. Bookspan calls to
18 the stand Matthias Epp.

19 CHAIRMAN OMAS: Matthias. I'm sorry. I
20 mispronounced your name. Mr. Epp, would you please
21 stand and raise your right hand?

22 Whereupon,

23 MATTHIAS EPP

24 having been duly sworn, was called as a
25 witness and was examined and testified as follows:

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1 CHAIRMAN OMAS: Thank you. You may be
2 seated.

3 (The document referred to was
4 marked for identification as
5 Exhibit No. Bookspan-T-2.)

6 DIRECT EXAMINATION

7 BY MR. VOLNER:

8 Q Mr. Epp, do you have before you -- I thought
9 I'd lost mine -- a copy of your testimony which has
10 been designated as Bookspan-T-2 and was submitted to
11 the Commission on July 14, 2005?

12 A Yes, I do.

13 Q Was that testimony prepared by you or under
14 your direction and supervision?

15 A Yes, it was.

16 MR. VOLNER: Mr. Chairman, with the leave of
17 the Commission I will provide the reporter with two
18 copies of the testimony, and I ask that it be recorded
19 in the record and admitted into evidence.

20 CHAIRMAN OMAS: Excuse me. I've sort of
21 lost my place here.

22 Is there any objection?

23 (No response.)

24 CHAIRMAN OMAS: Hearing none, I will direct
25 counsel to provide the reporter with two copies of the

1 corrected direct testimony of Mr. Epp.

2 That testimony is to be received into
3 evidence and is to be transcribed.

4 (The document referred to,
5 previously identified as
6 Exhibit No. Bookspan-T-2, was
7 received in evidence.)

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Postal Rate Commission
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BOOKSPAN-T-2

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

**RATE AND SERVICE CHANGES TO
IMPLEMENT BASELINE NEGOTIATED
SERVICE AGREEMENT WITH BOOKSPAN**

DOCKET NO. MC2005-3

**DIRECT TESTIMONY
OF
MATTHIAS EPP
ON BEHALF OF
BOOKSPAN**

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Direct Testimony

1
2
3

4 1. Autobiographical Sketch

5 My name is Matthias Epp. I am Senior Vice President Media & Internet at
6 BOOKSPAN. I have been with BOOKSPAN since 2000. Prior to working for
7 BOOKSPAN, I was the Chief Marketing Officer at DealPilot.com and held senior
8 positions in catalog management and new member acquisition marketing at BMG
9 Direct. I started my career in corporate development functions at Bertelsmann
10 AG. I graduated from The Koblenz School of Corporate Management (Koblenz,
11 Germany) with a degree in management, and from the Graduate School of
12 Business at the University of Texas at Austin with a Master's Degree in Business
13 Administration.

14 2. Purpose of Testimony

15 The purpose of this testimony is as follows. First, I describe the history of
16 BOOKSPAN, and place BOOKSPAN in its industry context. Second, I describe
17 BOOKSPAN's approach to marketing, and how marketing decisions are made in the
18 context of its marketing plans. Finally, my testimony briefly reviews
19 BOOKSPAN's volume history and volume forecasts, including the before-NSA
20 and after-NSA forecasts, and places those projections in context for
21 BOOKSPAN.

1 **3. Background on BOOKSPAN and its Industry Context**

2 BOOKSPAN's primary mission is to provide the public with a superior
3 book buying and reading experience through targeted editorial selection, great
4 savings, and exemplary customer service. We are achieving this mission by
5 operating various book clubs that are either general interest clubs, or designed to
6 serve specific groups of consumers with common reading interests. General
7 interest clubs encompass a variety of fiction and non-fiction topics, such as diet
8 and exercise, reference, biography, cooking, history, and children's books.
9 Specialty clubs offer books and related merchandise that are specific to certain
10 genres, such as mystery, science fiction, religion, hunting and fishing, gardening,
11 romance, and particular professional interests (e.g. nursing). We offer titles that
12 have been editorially selected at competitive, discount prices.

13 Although there are a few other companies offering book clubs, our
14 greatest competition is from retail establishments and on-line sales. Our book
15 club offerings compete directly for sales with the many other shopping venues
16 open to our customers which offer discounted books. Our most formidable
17 competition is from large discount chains (such as Walmart, Target, and other
18 discount general merchandise and drugstore chains that sell inexpensive books),
19 large buying club stores (such as Costco, BG's and Sam's Club), and on-line
20 shopping sites (such as Amazon, Borders, and Barnes & Noble). Large retail
21 booksellers such as Borders and Barnes & Noble are also competitors.
22 Scholastic and TrollCarnival have competitive children's book clubs.

1 While it is difficult to generalize on book sales trends industry-wide, book
2 publishing is popularly described as a mature industry. Industry statistics
3 suggest that the overall rate of growth in the book publishing industry is relatively
4 flat.¹ These same statistics indicate that a combined category of book club and
5 mail order sales is declining at a rate of roughly nine percent per year since
6 2002. There are, however, a lot of shifts in sales among categories of books.
7 For example, we can generally observe that while sales of many categories of
8 books have been declining overall over the past few years, sales of children's
9 books and religious books have increased over the same period.

10 Despite broad competition in a relatively flat market, BOOKSPAN
11 attributes its continued success to its editorial expertise, its constant
12 experimentation with new marketing and business development ideas, its
13 understanding of and ability to respond to its customers' preferences, and its
14 success in managing operational costs and achieving economies of scale.
15 BOOKSPAN's members value three essential characteristics of BOOKSPAN's
16 clubs: the convenience of at-home delivery, editorial pre-selection of titles, and
17 price advantage.

18 Since BOOKSPAN uses the mail both to serve existing customers and
19 reach new customers, postage costs are obviously a major factor influencing
20 BOOKSPAN's business. Other factors which have influenced BOOKSPAN's
21 ability to grow its business – not necessarily in order of importance – are:

¹ Management Practice Inc., *Estimated Book Publishing Industry Net Sales*,
<http://www.publishers.org/industry/index.cfm> (Association of American Publishers 2004).

- 1 • the general state of the economy (the disposable income of our target
2 markets, and their expectation of future disposable income);
- 3 • BOOKSPAN's success in the selection and offering of popular books (our
4 ability to pick best sellers in advance);
- 5 • the cost and price of the books (both our ability to negotiate a good price
6 on our bulk purchases, and the discounted price we charge our
7 customers);
- 8 • the perceived value of our enrollment offers (e.g., number of free books,
9 introductory charges, additional premiums, and purchase commitment);
- 10 • the regulatory climate (e.g., which has moderated our use of
11 telemarketing); and
- 12 • the availability and pricing of good mailing lists (a factor we further
13 address below).

14 As with any direct mail marketer, the availability and pricing of good lists is
15 a critical success factor. A good list of rental names can provide us with our
16 most valuable members – those demonstrating both good credit and purchasing
17 behavior. BOOKSPAN spends a significant amount of financial and other
18 resources up front on acquiring each new member, with the hope that this
19 member will buy not only the few books that they agree to buy to allow us to
20 break even, but additional monthly or catalog selections. Generally speaking, it
21 is these purchases beyond the required commitments that provide the return on
22 our investment. Using a weak list can result in a low response rate, or a
23 disproportionate number of new members who purchase only the minimum

1 quantity of books or (even worse) who fraudulently break their membership
2 agreement, or it can result in members where – due to high costs – the cost of
3 acquiring each member is less than the expected future contribution from such
4 member. So BOOKSPAN recognizes that the health of the list industry – the
5 availability and pricing of good direct marketing lists – is essential to our ability to
6 replenish our membership base each year and eventually grow our book club
7 business.

8 **4. Marketing at BOOKSPAN**

9 BOOKSPAN invests a lot of money in advertising and marketing to
10 acquire new members. Potential customers receive highly attractive introductory
11 offers at our risk. Basically, in exchange for receiving several books at a nominal
12 price plus shipping and handling, new members agree to a minimum purchase
13 commitment (typically four books over two years). Members have the option to
14 purchase our monthly selections at our discounted prices for the duration of their
15 membership. They are obligated to let BOOKSPAN know, approximately every
16 three to four weeks, in response to our mailed catalogs and notices, whether they
17 intend to decline the monthly selection (e.g., by returning a negative option card).
18 Members typically receive our current book catalog seventeen times per year.

19 BOOKSPAN grows its membership through direct marketing. As a direct
20 marketer, BOOKSPAN manages a portfolio of marketing channels and programs
21 to promote its clubs. Of course, we use direct mail: primarily Standard Mail
22 letters and flats. We use print advertising, which would consist of on-page
23 advertising in various magazines such as *Ladies' Home Journal* or *Good*

1 *Housekeeping*, and other publications such as *The New York Times Book*
2 *Review*. We market through inserts into newspapers and enclosures in third-
3 party mailings and shipments, through telemarketing and through the Internet.

4 The percentage that each media represents in our overall marketing
5 portfolio shifts, largely depending on price and relative effectiveness. These
6 media are priced very differently, and there are vast differences in the
7 effectiveness of the various channels. On average, the cost to reach one
8 consumer is much lower in print advertising, inserts and enclosures, and Internet
9 advertising, relative to the costs of a typical Standard Mail piece. However, our
10 ability to target customers with a common set of characteristics is generally
11 superior through the mail than through print ads. For this reason, we find that
12 direct mail, while more costly on average, is frequently more effective in terms of
13 response than print advertising. As to telemarketing, relatively recent changes in
14 the regulatory climate have tended to limit our telemarketing activity.
15 Nonetheless, we use all available media to reach potential customers.

16 Our marketing plan is developed through a complex and circular process.
17 We begin with annual growth, revenue, cost and profitability goals that are set by
18 our corporate owners. Based on various business metrics such as historic
19 revenues, costs, and profitability, our existing club membership figures, how
20 many books an average club member will purchase, and the duration of a typical
21 club membership, we develop an overall marketing budget that we expect would
22 enable us to meet our owners' goals.

1 Also, BOOKSPAN is constantly designing new potential marketing
2 campaigns for each of its forty existing clubs, and for its prospective new clubs.
3 Our media managers and their teams – print, mail, telemarketing and Internet –
4 are responsible for the campaigns specific to their particular marketing medium.
5 Our marketing managers are responsible for the marketing success of specific
6 club brands. Together they develop a set of marketing campaigns for each club
7 brand. We plan hundreds of campaigns per year.

8 Determining which marketing campaigns actually get executed requires
9 complex, multi-factor decision analysis. Each campaign (and in direct mail, each
10 list for each campaign) is evaluated by applying a common set of business
11 metrics, such as expected cost per mailing, response rate, and average revenue
12 contribution. These metrics are used to determine the expected profitability for
13 the campaign or list in question. The campaigns (and lists) are then ranked, and
14 those campaigns and lists that are high enough in rank so that they meet our
15 internal profitability thresholds are ultimately the campaigns that are executed.
16 When the campaigns above the threshold exceed the available marketing budget
17 then the most highly ranked campaigns only are selected. Thus, individual
18 marketing campaigns form the details of the overall promotional budget. Even
19 small differences between the campaigns (such as differences in postage, cost of
20 paper, list costs and rental terms, as well as expected response rates) can
21 change the ranking of a campaign, or the ranking of particular lists within a
22 campaign. Postage typically constitutes a significant percentage of the costs of
23 our direct mail campaigns – roughly half of the cost per thousand customers

1 reached in a typical campaign. Thus, when postage rates go up or down only a
2 few percentage points, particular direct mail campaigns (or specific lists within
3 campaigns) go off or on our list of executable campaigns.

4 Each month, BOOKSPAN management reevaluates actual results with
5 respect to meeting our annual financial goals. While we establish marketing
6 budgets at the beginning of a year, variances in the actual results compared to
7 the financial goals can trigger a re-evaluation and re-allocation of the marketing
8 budget. In general, campaign plans are reviewed and re-planned on a monthly
9 basis, with adjustments occurring both on the overall and at detailed levels.
10 Marketing campaigns and lists may go on or off our list of active campaigns
11 depending upon actual financial and marketing performance. Campaign
12 rankings can even suggest the value of accelerating a club's growth by allocating
13 more marketing resources to it or closing a particular book club and removing
14 marketing resources. Another way of saying this is that with each monthly
15 financial forecast, our forward-looking marketing budget for operational purposes
16 is subject to adjustment.

17 We rely on our latest marketing budget to determine order volumes for
18 paper, print production, books, envelopes, catalogs, and staffing levels in
19 customer service and transaction processing. In short, we operate on the basis
20 of our marketing budget. Our marketing budget thus determines a significant
21 percentage of our costs, which affects our cash flow projections, and overall
22 financial management at BOOKSPAN. This, in turn, factors in to the financial
23 management of our owners, one of which is subject to SEC reporting

1 requirements, and both of which report quarterly on their revenue and profit
2 projections. Thus, our budget and volume forecasts are determined analytically,
3 and subject to considerable internal scrutiny.

4 Postage constitutes such a significant percentage of the costs of a typical
5 campaign that it is arguably the single most influential factor dictating which
6 direct mail campaigns get executed. The larger a potential price incentive, the
7 more direct mail campaigns wind up on our execution list, and more of our
8 budget is thus moved to mail. For example, consider a direct mail campaign that
9 costs approximately \$400 per thousand mailpieces. If postage costs roughly
10 \$.20/piece, postage costs are roughly half the costs of the campaign. As little as
11 a \$.01 change in postage rates is \$10 per thousand pieces, or 5% of the
12 campaign's postage costs. A \$.02 change in rates is \$20 per thousand pieces,
13 10% of the campaign's postage costs, and 5% of total campaign costs per
14 thousand mailpieces. Considering that BOOKSPAN ranks hundreds of
15 campaigns, and each campaign has the option of purchasing as many as 150
16 different lists, each of which are also ranked, even small changes in postage can
17 have significant effects on BOOKSPAN's mail volume. Simply, the greater the
18 price incentive, the more BOOKSPAN would mail.

19 **5. BOOKSPAN's Volume History and Volume Forecasts**

20 BOOKSPAN's three years of historic volumes (see Table 1) are based on
21 data drawn from its own postal systems, adjusted to correspond with Postal
22 Service fiscal years, and then verified against Postal Service permit data.
23 BOOKSPAN's general trends suggest declining solicitation mail volume.

1 BOOKSPAN attributes the uncharacteristic increase shown in the most recent
 2 complete Postal Service fiscal year to one-time factors that do not suggest future
 3 growth in mail volumes. For example, among these factors are BOOKSPAN's
 4 decision to severely limit our telemarketing during our last fiscal year. The
 5 portion of our marketing budget that had been previously dedicated to
 6 telemarketing campaigns was applied to our direct mail campaigns. Also, this
 7 past year was an election year. This circumstance enhanced BOOKSPAN's
 8 expectations regarding the popularity of certain of our special interest clubs.

9 Table 1 Bookspan's Historic Solicitation Volumes

10 (Past Three Postal Service Fiscal Years)

	FY 2002	FY 2003	FY 2004
New Membership Std letter-size	84,694,802	82,991,923	94,014,756
New Membership Std Flat-size	215,324,921	196,631,597	164,378,427
Total	300,019,723	279,623,520	258,393,183

11

12 BOOKSPAN also provides its current best estimate of its three-year
 13 volume forecasts (see Table 2). While the Postal Service may project its future
 14 mail volumes based on its historic experience, BOOKSPAN cannot forecast total
 15 numbers of mailpieces independently from its planning of other direct marketing
 16 campaigns. Its decision process with respect to the operation of its campaigns
 17 dictates that it cannot offer a mail volume forecast with great precision more than
 18 a few months in advance. Nevertheless, I have developed the best possible
 19 three-year before-rate and after-rate mail volume forecasts based on information
 20 BOOKSPAN possesses at the present time.

Table 2 Bookspan's Forecasted Solicitation Volumes
(Next Three Postal Service Fiscal Years)

	FY 2006	FY 2007	FY 2008
Before Rate			
New Membership Std letter-size	78,000,000	75,000,000	75,000,000
New Membership Std Flat -size	137,000,000	129,000,000	130,000,000
Total	215,000,000	204,000,000	205,000,000
After Rate			
New Membership Std letter-size	105,000,000	105,000,000	107,000,000
New Membership Std Flat -size	120,000,000	110,000,000	110,000,000
Total	225,000,000	215,000,000	217,000,000

Since we have obviously not planned all our potential campaigns for the prospective three-year period, I have used our marketing budgets for current and previous years and applied our best estimate of future cost increases as well as our expected growth in profitability over the next few years to arrive at our best estimate of mail volumes. The before-rate forecasts reflect BOOKSPAN's expectation that there will be a significant drop in new member Standard Mail letter and flat solicitations beginning in the first year of the agreement, a modest further drop in volume in the second year, and relatively level volumes in the third year. We anticipate the significant drop in the first year projection primarily due to the anticipated 5.4% increase in postage rates. This is the single most predictable event that is certain to affect mail volumes by reducing the number of lists that qualify in each planned campaign. The further drop is projected primarily because we anticipate a further postage rate increase.

1 After-rate volume forecasts (see Table 2) demonstrate significant
2 increases in Standard Mail letter volumes, but deeper cuts in Standard Mail flat
3 volumes. This is because BOOKSPAN anticipates that providing BOOKSPAN
4 with a discount on Standard Mail letters will cause a modest migration of mail
5 from flats to letters. Postal Service testimony demonstrates that despite this
6 expected migration, the NSA is favorable to the Postal Service.

7 I do not expect an incentive that is provided only for letter solicitations to
8 result in shifting all or most of BOOKSPAN's mail from flats to letters. As my
9 forecast suggests, an incentive provided to letter solicitations may result in the
10 selection of some additional letter mail campaigns over some flats campaigns.
11 However, there is a limit to how much flat mail can be converted to letter mail.
12 BOOKSPAN uses lists of both internal and external names to market to
13 prospective club members. External name lists are lists we rent from other
14 companies. Experience has shown response rates in most clubs are higher
15 using a flat mailpiece format when marketing to external lists, perhaps because
16 the mailpiece draws more attention and has a greater impact, or because it
17 resembles a typical catalog mail piece. Internal name lists are either lists of
18 former members, or lists of members of one club being solicited to join another
19 club. Experience has shown in most cases our response rates are higher using
20 a letter format when marketing to internal lists. Our hypothesis is that existing or
21 former members of another club respond better to letters than flats because they
22 are already accustomed to receiving letter mailings from BOOKSPAN. Going
23 back to our method of ranking lists and campaigns by expected profitability, it

1 becomes evident that changes in mailing costs for one format will offset some or
2 all of the lower response rate, allowing us to shift the corresponding volume to
3 letter format. At the same time, BOOKSPAN must continue to maintain an
4 effective mix between marketing to internal and external names. We need to
5 continue to add new members, and to do so, we need to continuously market to
6 new names. Since in the aggregate flats are more effective when marketing to
7 external lists, we simply cannot shift all of our flats to letters and still hope to grow
8 our business effectively.

9 **6. Conclusion**

10 This NSA offers tremendous potential to increase BOOKSPAN's direct
11 mail solicitation letter volume. BOOKSPAN's solicitation letter mail contributes to
12 institutional costs at a greater rate than solicitation flat mail. The promotional
13 mail discounts will encourage BOOKSPAN's ability to test new lists that are
14 currently on the margins, and will undoubtedly encourage BOOKSPAN to shift
15 our new member solicitation from other media to direct mail.

16 Also, as my colleague Robert Posch further describes in his testimony, we
17 expect this NSA to have other favorable effects on Postal Service volumes.
18 BOOKSPAN conducts its relationship with its members through the mails, so
19 adding new members contributes in predictable ways to the mailstream.

20 Furthermore, BOOKSPAN rents our own growing lists to carefully
21 screened marketers that are launching promotions likely to appeal to a particular
22 book club demographic. Our membership growth enhances these list rentals,
23 and these rentals contribute to further growth of direct mail. To the Postal

- 1 Service, this means even higher mail volumes, with no additional investment in
- 2 incentives.

1 CHAIRMAN OMAS: Mr. Epp, have you had an
2 opportunity to examine the packet of designated
3 written cross-examination that was made available to
4 you in the hearing room this morning?

5 THE WITNESS: I'm not sure I understand
6 that. Could you just repeat that, please?

7 CHAIRMAN OMAS: All right. I'll go again.
8 Mr. Epp, have you had an opportunity to examine the
9 packet of designated written cross-examination that
10 was made available to you in the hearing room this
11 morning?

12 THE WITNESS: Yes, I did.

13 CHAIRMAN OMAS: Would you bring the mike
14 closer?

15 THE WITNESS: Yes, I did.

16 CHAIRMAN OMAS: Thank you. If the questions
17 contained in that packet were posed to you orally
18 today would your answers be the same as those you
19 previously provided in writing?

20 THE WITNESS: Yes, they would.

21 CHAIRMAN OMAS: Are there any additions or
22 corrections you would like to make to those answers?

23 MR. VOLNER: Mr. Chairman, there is one
24 typographical error that we have corrected in the now
25 fabled OCA/Bookspan-T-2-7.

1 We had three columns designated FY 2006, FY
2 2006, which should have been 2007, and FY 2008, and
3 we've corrected the incorrect designation.

4 CHAIRMAN OMAS: All right.

5 MR. VOLNER: That was the only correction
6 that we had.

7 CHAIRMAN OMAS: Thank you. Counsel, would
8 you please provide two copies of the corrected
9 designated written cross-examination of Witness Epp to
10 the reporter?

11 That material is received into evidence and
12 is to be transcribed in to the record.

13 (The document referred to was
14 marked for identification as
15 Exhibit No. Bookspan-T-2 and
16 was received in evidence.)

17 //

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

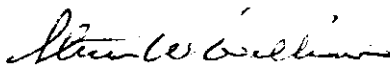
Rate and Service Changes to Implement
Baseline Negotiated Service Agreement
with Bookspan

Docket No. MC2005-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF BOOKSPAN
WITNESS MATTHIAS EPP
(Bookspan-T-2)

<u>Party</u>	<u>Interrogatories</u>
American Postal Workers Union, AFL-CIO	APWU/Bookspan-T2-2-4
Newspaper Association of America	NAA/Bookspan-T2-1, 3
Office of the Consumer Advocate	OCA/Bookspan-T2-2-7, 8a, c-f, 9, 11a, c, 12-18 OCA/USPS-13 redirected to Bookspan-T2 OCA/USPS-T2-20 redirected to Bookspan-T2
Postal Rate Commission	PRC/Bookspan-POIR No.1 - Q4a, 4c, POIR No.2 - Q1b, 1c, 1d, 1ei redirected to T2

Respectfully submitted,


Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
BOOKSPAN
WITNESS MATTHIAS EPP (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
APWU/Bookspan-T2-2	APWU
APWU/Bookspan-T2-3	APWU
APWU/Bookspan-T2-4	APWU
NAA/Bookspan-T2-1	NAA
NAA/Bookspan-T2-3	NAA
OCA/Bookspan-T2-2	OCA
OCA/Bookspan-T2-3	OCA
OCA/Bookspan-T2-4	OCA
OCA/Bookspan-T2-5	OCA
OCA/Bookspan-T2-6	OCA
OCA/Bookspan-T2-7	OCA
OCA/Bookspan-T2-8a	OCA
OCA/Bookspan-T2-8c	OCA
OCA/Bookspan-T2-8d	OCA
OCA/Bookspan-T2-8e	OCA
OCA/Bookspan-T2-8f	OCA
OCA/Bookspan-T2-9	OCA
OCA/Bookspan-T2-11a	OCA
OCA/Bookspan-T2-11c	OCA
OCA/Bookspan-T2-12	OCA
OCA/Bookspan-T2-13	OCA
OCA/Bookspan-T2-14	OCA
OCA/Bookspan-T2-15	OCA
OCA/Bookspan-T2-16	OCA
OCA/Bookspan-T2-17	OCA
OCA/Bookspan-T2-18	OCA
OCA/USPS-13 redirected to Bookspan-T2	OCA
OCA/USPS-T2-20 redirected to Bookspan-T2	OCA
PRC/Bookspan-POIR No.1 - Q4a redirected to T2	PRC
PRC/Bookspan-POIR No.1 - Q4c redirected to T2	PRC
PRC/Bookspan-POIR No.2 - Q1b redirected to T2	PRC
PRC/Bookspan-POIR No.2 - Q1c redirected to T2	PRC

Interrogatory

PRC/Bookspan-POIR No.2 - Q1d redirected to T2

PRC/Bookspan-POIR No.2 - Q1ei redirected to T2

Designating Parties

PRC

PRC

RESPONSE OF BOOKSPAN WITNESS EPP TO THE INTERROGATORIES OF THE
AMERICAN POSTAL WORKERS UNION

APWU/BOOKSPAN T2-2. Table 1 in your testimony presents the historical volume of new member solicitations for Postal fiscal years 2002, 2003, and 2004. That table shows a 13% increase in the volume of letter-size mailings between 2003 and 2004 and a 16% decline in flat-size mailings.

a. Other than the shift of your telemarketing budget to mail solicitations in 2004 and the election-year impact that you mention in your testimony, were there other factors that influenced the increase in your letter-size volume in 2004?

b. Was any of your flat-size volume switched to letter-size volume? If so what factors influenced that decision?

Response:

a. Bookspan conducted format tests between flats and letters, and letters proved to be the better choice based on a variety of factors.

b. Again, if any flat sized volume switched to letter size, it would have been because of format testing—the letter size won.

RESPONSE OF BOOKSPAN WITNESS EPP TO THE INTERROGATORIES OF THE
AMERICAN POSTAL WORKERS UNION

APWU/BOOKSPAN-T2-3. In your response to POIR No. 1, Question 4 (a), you provide a forecast of volume assuming no rate increase.

- a. Are the types of mailings covered in that table the same as the types of mailings tabulated in Table 1 of your testimony?
- b. The 2006 value for letter-size volume in that table is below the 2003 level and substantially below the 2004 volume. What factors account for that sharp decline?
- c. Does any of the forecasted decline reflect a shift "to electronic media" between 2004 and 2006, as you state is the reason for the decline between 2006 and 2007? If so please identify the type of electronic media to which you are referring.
- d. In your response to OCA/Bookspan T2-4 you state that there are no plans for Bookspan to return to telemarketing during the period of the forecast. Yet the decline in your before rates volume forecast seems to indicate that you did not permanently move your telemarketing efforts to direct mail, what other channels of marketing are you using to fill in that void?

Response:

- a. Yes.
- b. The decline was caused by new member acquisition budget cuts beginning in our fiscal year 2005.
- c. Not to my knowledge.
- d. Budget cuts were the reason for the decline. We are not moving back to telemarketing. Other media include print advertising, package inserts, and internet advertising.

RESPONSE OF BOOKSPAN WITNESS EPP TO THE INTERROGATORIES OF THE
AMERICAN POSTAL WORKERS UNION

APWU/BOOKSPAN-T2-4. You state on page 12 of your testimony that you anticipate an NSA will “cause a modest migration of mail from flats to letters”

- a. Please describe the contents of a typical flat-size mailing you send now.
- b. Please describe the changes that you anticipate would have to be made to that mailing to switch it to a letter format.
- c. Would the resulting letter-size piece be machinable?
- d. If, so, what would be the average weight?
- e. If you do not anticipate that it would be machinable, please describe the rate category Bookspan would use to mail such a piece. What would be its average weight?
- f. In your testimony you discuss one factor that influences your choice between sending a letter-size piece or a flat-size piece and that is whether it is going to an internal or external list of names. Please describe any other factors that influence this choice.

Response:

- a. Bookspan’s flat size pieces are typically a 24 or 32 page self-mailer with a bound-in order card. *These pieces contain selections of book titles, including a four color photo and blurbs about the books, and information on how to join the club and club benefits.*
- b. The piece would be reconstructed as an envelope, letter, BRC (order card) and a multiple page brochure depicting similar copy as described above in our response to (a).
- c. Yes.
- d. 2.5 ounces.
- e. Not applicable.
- f. Package test results cause us to determine which package will work better for a group of names. In many cases, the line between internal and external names is blurred. Using a letter-size mailing also allows us to sell inserts into an envelope package to defray some of the costs; we are currently testing this process.

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORIES OF THE
NEWSPAPER ASSOCIATION OF AMERICA

NAA/Bookspan-T2-1: Please refer to the list of Bookspan's competitors on page 2 of your testimony. Does Bookspan view independent book sellers that operate in only one or two metropolitan areas as part of its competition? Would your answer differ if such book sellers used, at least for some of their business, a book "club" model?

Response:

Generally, all book sellers—large and small outlets, and any source of books—compete with us for our members' and prospects' spending on books. This competition is not dependent on whether or not the booksellers use a book club model. Generally, the book sellers do not directly compete with us in the advertising space, such as demand for lists or national space advertising.

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORIES OF THE
NEWSPAPER ASSOCIATION OF AMERICA

NAA/Bookspan-T2-3. Please refer to the July 29, 2005, issue of the *PostCom Bulletin*, which contains a "special report" appearing after page 16. In that article, Mr. Posch is quoted as follows: "Matthias really got the Postal Service to look at our company and how we do business. . . . The USPS went the extra mile to learn about a customer in detail."

- a. Is the quotation accurate?
- b. Please elaborate on the efforts to which the Postal Service went to learn about Bookspan's business. Please include a description of the general timeframe and what steps that the Postal Service took.
- c. Are the efforts that the Postal Service made to understand Bookspan's business more or less valuable to Bookspan than the value of the declining block volume discounts?

Response:

- a. Witness Posch informs me that he was accurately quoted. I spent a considerable amount of time meeting with the Postal Service and describing our marketing practices to Postal Service staff.
- b. The Postal Service visited Bookspan's offices or facilities numerous times. The parties met many more times in Washington, DC. Conversations between the Postal Service and Bookspan about developing a Negotiated Service Agreement have taken place over at least a four year period.
- c. The meaning of this question is unclear. However, the Negotiated Service Agreement would have been difficult to bring to fruition but for the effort that the Postal Service made to understand Bookspan's business.

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORY OF THE
OFFICE OF THE CONSUMER ADVOCATE

OCA/BOOKSPAN-T2-2. Please refer to your testimony at page 10, lines 3-4, where it states "For example, among these factors are BOOKSPAN's decision to severely limit our telemarketing during our last fiscal year."

- a. What factor(s) caused Bookspan to "severely limit" its telemarketing during FY 2004? Please explain.
- b. Will the factor(s) that caused Bookspan to "severely limit" its telemarketing during FY 2004 severely limit Bookspan's telemarketing during Fiscal Years 2006, 2007, and 2008? Please explain.

Response:

(a) In October 2003, the FTC and FCC began enforcement of the National Do Not Call Registry, requiring that marketers refrain from calling telephone numbers on that list unless they have an existing business relationship with the called party. In addition, a number of states have independently adopted Do Not Call requirements that differ from the federal requirements. The cost of attempting to comply with these new regulations, related issues surrounding the national and state Do Not Call registries, and the reduction in the universe of new member acquisitions that could be made consistent with the new regulations led Bookspan to conclude that, in our case, the cost of telemarketing outweighed its benefits. As a result, Bookspan gradually reduced the use of telemarketing as a new member acquisition channel during the second half of calendar 2003 and continuing through calendar 2004. The use of telemarketing as a new member acquisition medium was suspended completely in November 2004, approximately 18 months after the promulgation of new regulations. As I point out in my testimony, that portion of Bookspan's 2004 marketing budget that had been previously dedicated to telemarketing campaigns was applied to direct mail letter size campaigns.

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORY OF THE
OFFICE OF THE CONSUMER ADVOCATE

However, as my testimony also points out, despite this one-time budget adjustment, total new member *flat size acquisition mail and total acquisition mail nonetheless declined* year over year.

(b) Currently, there are no plans to resume telemarketing, but plans in the business climate do change. The rate incentives provided for in the Negotiated Service Agreement, if approved, will give Bookspan incentive to continue to use direct mail that qualifies for the discounts over telemarketing.

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORY OF THE
OFFICE OF THE CONSUMER ADVOCATE

OCA/BOOKSPAN-T2-3. Please refer to your testimony at page 10, lines 3-4, where it states "For example, among these factors are BOOKSPAN's decision to severely limit our telemarketing during our last fiscal year."

- a. For Fiscal Years 2002, 2003, 2004, please provide the monthly volume of telemarketing calls.
- b. For Fiscal Year 2005 to date, please provide the monthly volume of telemarketing calls.
- c. For the remainder of Fiscal Year 2005, please provide the projected monthly volume of telemarketing calls.

Response:

(a) Bookspan did not collect nor does it have records showing "monthly volume" of telemarketing calls. The data was collected by a source key and some keys at the end of the company's fiscal year overflow into the next year. The following table sets forth the information that the company does have with respect to telemarketing for each of the three years in question.

Year	Callable names	Consumed	Completed calls
2002	11,321,971	7,403,810	3,914,281
2003	9,286,884	5,600,495	3,481,811
2004	3,883,551	1,711,864	1,148,679

Callable names: names delivered to call centers with a phone # for calling

Consumed: names dialed

Completed calls: actually connected with a person on the other end. Could result in a sale, refusal, hang-up.

(b) Since telemarketing was suspended in November 2004, there is no monthly volume of telemarketing calls during the historic portion of the company's 2005 fiscal year.

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORY OF THE
OFFICE OF THE CONSUMER ADVOCATE

(c) Since there are no plans and no budget to conduct telemarketing, the company has not made any projected volume of telemarketing calls for the remainder of the company's 2005 fiscal year.

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORY OF THE
OFFICE OF THE CONSUMER ADVOCATE

OCA/BOOKSPAN-T2-4. Please refer to your testimony at page 10, lines 4-6, where it states "The portion of our marketing budget that had been previously dedicated to telemarketing campaigns was applied to our direct mail campaigns." For Fiscal Years 2006, 2007, and 2008, will the portion of Bookspan's marketing budget dedicated to telemarketing campaigns be applied to Bookspan's direct mail campaigns? Please explain.

Response:

Currently, there are no plans to resume telemarketing and no budget dedicated to that marketing channel. Therefore, there is planning for a marketing budget to be applied to telemarketing campaigns for FY 2006-2008. As I pointed out in my testimony, the reallocation of Bookspan's marketing budget from telemarketing to direct mail in 2004 was a one-time event. Nonetheless, even if the decision is made to resume telemarketing, the incentives provided for in the NSA, if approved, will give Bookspan a significant incentive to use direct mail as its new member acquisition channel.

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORY OF THE
OFFICE OF THE CONSUMER ADVOCATE

OCA/BOOKSPAN-T2-5. Please refer to your testimony at page 10, lines 4-6, where it states "The portion of our marketing budget that had been previously dedicated to telemarketing campaigns was applied to our direct mail campaigns." For Fiscal Years 2006, 2007, and 2008, please provide the projected monthly volume of telemarketing calls.

Response:

As there are currently no plans to conduct telemarketing in any of these years, no projections of volume have been developed.

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RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORY OF THE
OFFICE OF THE CONSUMER ADVOCATE

OCA/BOOKSPAN-T2-6. Please turn to your testimony, Table 1 on page 10. You provide historical data for New Membership Standard letter-size and New Membership Standard Flat-size solicitation volumes for Postal Service FY 2002, FY 2003, and FY 2004. Please provide comparable data for FY 1999, FY 2000, and FY 2001.

Response:

There is no data available for the years 1999 through 2000, because Bookspan did not exist until March, 2000, and it took the company some time to develop and integrate its systems. The following are *estimates* for 2001 mail based on Bookspan's calendar year – not the Postal Service's Fiscal Year. These estimates were developed based on the percentages of Bookspan's Standard Mail in each rate category. The figures were not reconciled as part of reaching an agreement on the NSA, and given our experience reconciling Bookspan data with Postal Service CAPS data for Postal fiscal years 2003 and 2004, we fully expect these figures to vary from Postal Service figures. The differences between the calendar years, and significant effort involved in performing this reconciliation limit the value of examining 2001 data. With this in mind, we provide the following response:

	FY 2001	
New Membership Std letter-size	59,757,158	21%
New Membership Std flat-size	224,800,735	79%
Total	284,557,893	

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORY OF THE
OFFICE OF THE CONSUMER ADVOCATE

OCA/BOOKSPAN-T2-7. Please turn to your testimony, Table 2, page 11. For each of the years FY 2006, FY2007, and FY2008 please indicate for the After Rate mailings how much of the New Membership Standard letter-size mail is mail which has been converted from New Membership Standard Flat-size mail and how much of the New Membership Standard letter-size mail is new mail which would not otherwise have been generated absent the implementation of the proposed NSA.

As I explained in my testimony, all of the potential campaigns for 2006-2007 have not been planned in detail. However, the following is our best estimate:

After Rates	FY 2006	FY 2007	FY 2008
Letter Size mail converted from flats	17,000,000	19,000,000	20,000,000
Letter Mail which would not otherwise have been generated	10,000,000	11,000,000	12,000,000

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RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORIES OF THE
OFFICE OF THE CONSUMER ADVOCATE

OCA/BOOKSPAN-T2-8. Please refer to your response to POIR No. 1, Question 4(c).

- a. Please state the 12 month period for Bookspan's current fiscal year. For the years 1999 through 2005, has the 12 month period for Bookspan's fiscal year changed from the current fiscal year? Please explain. Provide the 12 month period for those fiscal years that differ from the current fiscal year.

Response:

- a. For purposes of financial reporting, BOOKSPAN's current fiscal year began on 12/26/04 and ends on 12/25/05. Bookspan was formed in March of 2000.

BOOKSPAN's first complete fiscal year fiscal year began 6/24/00 and ended 6/24/01.

During the second half of calendar year 2001, Bookspan changed its fiscal reporting period to its current reporting periods, with the period of 06/25/01 to 12/23/01 being reported as a six month stub period.

The Bookspan fiscal years 2002, 2003 and 2004 refer to the following periods:

2002: 12/24/01 to 12/22/02
2003: 12/23/02 to 12/21/03
2004: 12/22/03 to 12/25/04

Mail volumes are reported on Bookspan's fiscal year basis, and that is the basis used for purposes of the response to POIR No. 1, Question 4(c).

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORIES OF THE
OFFICE OF THE CONSUMER ADVOCATE

OCA/BOOKSPAN-T2-8. Please refer to your response to POIR No. 1, Question 4(c).

- c. For the years 1999 and 2000, please provide Bookspan's Standard Mail "Total," "Letters," and "Flats" volumes by month. If such volumes are not available by month, please provide the requested volumes by quarter.
- d. For Fiscal Year 2005 to date, please provide Bookspan's Standard Mail "Total," "Letters," and "Flats" volumes by month. If such volumes are not available by month, please provide the requested volumes by quarter.
- e. For the remainder of Fiscal Year 2005, please provide Bookspan's projected Standard Mail "Total," "Letters," and "Flats" volumes by month. If such projected volumes are not available by month, please provide the requested volumes by quarter.
- f. For Fiscal Years 2006, 2007, and 2008, please provide Bookspan's projected annual Standard Mail "Total," "Letters," and "Flats" volumes.

Response:

- c. Bookspan was formed in March of 2000, and therefore can not provide the requested data for 1999 or 2000.
- d. Because Bookspan does not track Standard Mail volumes according to the Postal Service Fiscal Year, I cannot provide monthly totals on the requested basis. For Monthly solicitation volumes for FY 2005, please see my response to OCA/Bookspan-T2-1(b).
- e. See my response to (d) above, as well as my response to OCA/Bookspan-T2-1(c).
- f. For projections of Bookspan's New Member Solicitation mail letters and flats for Fiscal Year 2006, 2007, and 2008, please refer to my testimony at page 11. Since Bookspan does not create projections of current member mail based on the Postal Service Fiscal Year, I cannot provide a projection for Standard Mail "Total," "Letters," and "Flats" for this time period.

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORIES OF THE
OFFICE OF THE CONSUMER ADVOCATE

OCA/BOOKSPAN-T2-9. Please refer to your response to POIR No. 1, Question 4(c).

- a. For each of the years 2001, 2002, and 2003 shown in response to POIR No. 1, Question 4(c), and for each of the years 1999, 2000, and 2004,
 - i. What percent of Bookspan's Standard Mail volume of solicitation letters and flats included promotions of Bookspan's strategic business alliances?
 - ii. What percent of Bookspan's Standard Mail volume of letters and flats sent to existing customers included promotions of Bookspan's strategic business alliances?
- b. For Fiscal Year 2005 to date,
 - i. What percent of Bookspan's Standard Mail volume of solicitation letters and flats included promotions of Bookspan's strategic business alliances?
 - ii. What percent of Bookspan's Standard Mail volume of letters and flats sent to existing customers included promotions of Bookspan's strategic business alliances?
- c. For the remainder of Fiscal Year 2005,
 - i. What percent of Bookspan's Standard Mail volume of solicitation letters and flats is projected to included promotions of Bookspan's strategic business alliances?
 - ii. What percent of Bookspan's Standard Mail volume of letters and flats sent to existing customers is projected to included promotions of Bookspan's strategic business alliances?

Response:

- a. Bookspan was formed in March, 2000.
 - i. We assume that this question intends to inquire concerning Standard Mail New Member letters and flats. For each of the years 2001, 2002, and 2003, 2000, and 2004, letters and flats, 0%.
 - ii. We assume that this question intends to inquire concerning Standard Mail Current Member letters and flats.

Bookspan was formed in March, 2000. Bookspan has no data for the years 2001, 2002, and 2003, 2000, and 2004 concerning this percentage.

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b. i. We assume that this question intends to inquire concerning Standard Mail
New Member letters and flats.

For 2005 to date, New Member flats - 0%.

For 2005 to date, New Member letters - 0.17%.

ii. We assume that this question intends to inquire concerning Standard Mail
Current Member letters and flats.

For 2005 to date, Current Member flats - 0%.

For 2005 to date, Current Member letters - 57%.

c. i. We assume that this question intends to inquire concerning Standard Mail
New Member letters and flats.

For the remainder of 2005, of all New Member flats, 0%.

For the remainder of 2005, New Member letters, 0%.

ii. We assume that this question intends to inquire concerning Standard Mail
Current Member letters and flats.

For the remainder of 2005, of all Current Member flats, 0%.

For the remainder of 2005, of all Current Member letters, 57%.

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OCA/BOOKSPAN-T2-11. Please refer to your response to OCA/BOOKSPAN-T2-3(c), where it states that "there are no plans and no budget to conduct telemarketing."

- a. Please confirm that for the company's 2005 and 2006 fiscal years there has been a significant reduction in Bookspan's total marketing budget as compared to fiscal year 2004 because of the elimination of funds for telemarketing. If you do not confirm, please explain.
- c. For Bookspan's fiscal years 2004 and 2005, please provide the total amount of the marketing budget actually spent, and the amounts spent for solicitation mail, telemarketing, and the other marketing channels.

Response:

- a. See the response to OCA/Bookspan-T2-11(b).
- c. We assume the term "marketing budget" is used here to describe the amount spent to solicit New Members. Bookspan actually spent or is expected to spend about what it has budgeted for the periods indicated. See the response to OCA/Bookspan-T2-11(b).

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OCA/BOOKSPAN-T2-12. Please refer to your response to OCA/BOOKSPAN-T2-4.

- a. For the Test Year Before Rates, please provide Bookspan's total marketing budget, and the budgeted amounts for solicitation mail, telemarketing, and the other marketing channels,
 - i. Assuming current rates for Standard Mail remain in effect; and,
 - ii. Assuming the 5.4 rate increase for Standard Mail proposed in Docket No. R2005-1 is implemented;
- b. For the Test Year After Rates, please provide Bookspan's total marketing budget, and the budgeted amounts for solicitation mail, telemarketing, and the other marketing channels,
 - i. Assuming current rates for Standard Mail remain in effect, and the Commission recommends the Bookspan NSA as proposed;
 - ii. Assuming the 5.4 rate increase for Standard Mail proposed in Docket No. R2005-1 is implemented, and the Commission recommends the Bookspan NSA as proposed.

Response:

- (a-b). See the response to OCA/Bookspan T2-11(b). While general plans can be discussed in relation to Postal Service fiscal years (as the response to OCA/BOOKSPAN-T2-4 shows), Bookspan does not develop budgets based on the Postal Service's fiscal year, and has not performed this analysis.

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OCA/BOOKSPAN-T2-13. Please refer to your response to Presiding Officer's Information Request Number 1, Question 4A. You provided an estimate of volumes based on the assumption of no rate increase and no NSA. Please provide similar estimates for letters and flats for the same years on the assumption of no rate increase plus availability of the proposed NSA.

Response:

In general, under circumstances of "No Rate Hike/NSA" it would appear easier for Bookspan to reach the volume commitments necessary to earn the discounts. However, please refer to my testimony and the NSA, which indicate that the NSA volume commitments of the NSA are based on an expected rate hike, and specified discounts.

Also, please refer to my response to POIR No. 1, Question 4(a). In reaching this NSA, we did not make any volume estimates on the assumption of "No Rate Hike" because when we began preparing Bookspan's 2006 budgets, we knew that a rate increase would occur during that year. My response to POIR No. 1, Question 4(a) states that our estimate of the No Rate Hike/No NSA scenario was our "current [i.e., as of August 12, 2005] best estimate" based on an "artificial assumption." By that date, a rate hike early in 2006 was quite apparent. In these circumstances, we are unable to form any reasonable estimate of what would happen if the Postal Service were to withdraw the pending rate case.

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I am entirely unable to speculate as to what might happen in 2007 or 2008 on an assumption about withdrawal of the pending case. I am informed, however, that the Postal Service may file for a further increase to take effect in those years, and if that were to occur, it would be more difficult for Bookspan to meet its volume commitments.

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OCA/BOOKSPAN-T2-14. The proposed NSA is based on the concept that the offering of a postage discount will cause Bookspan to generate more mail. Please quantify how the expected discount is related to expected costs, expected revenues, response rates, and profitability.

- (a) Please show the profitability of a mailing without a discount.
- (b) Please show the profitability of a mailing with a discount.
- (c) Please show how obtaining a discount moves a mailing from being unprofitable to being profitable.

Response:

I assume the questions inquire about New Member mailings. Costs, revenues, response rates and expected profitability vary significantly from mailing to mailing, and within a mailing, they vary by list, offer and format used. Therefore, I can respond to this question only by illustrative example. The numbers provided in the following illustrative example do not reflect averages. Also, please see my testimony at pages 7-8.

- (a) Assume a mailing has a total cost per thousand of \$420. Postage accounts for about \$200 of this. The remainder of the costs are for list costs, paper, printing and processing. Assuming a response rate of 1%, the cost of acquiring one customer is \$42. If the expected value per customer is \$42, this mailing would have an expected profitability of zero.
- (b) Assume the same mailing with a postage discount of 2 cents per piece (or \$20 per thousand pieces). The total cost per thousand would go down to \$400. With the stated response rate, the cost per customer would now be \$40. With the expected

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value at \$42, the resulting profitability would be \$2, or 5% of the cost per customer. (c) In the above example, obtaining the discount would make the mailing profitable.

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OCA/BOOKSPAN-T2-15. Please refer to your response to interrogatory

OCA/Bookspan-T2-4. The second sentence in the response appears to have a word missing. If this is not the case, please reconcile the first two sentences of the response, which appear to be contradictory.

Response:

The second sentence in the response is corrected as follows:

"Therefore, there is no planning for a marketing budget to be applied to telemarketing campaigns for FY 2006 – 2008."

RESPONSE OF BOOKSPAN WITNESS EPP TO INTERROGATORIES OF THE
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OCA/BOOKSPAN-T2-16. Please refer to your response to interrogatory

OCA/Bookspan-T2-2(a), in which you state at the bottom of the page, "[T]hat portion of Bookspan's 2004 marketing budget that had been previously dedicated to telemarketing campaigns was applied to direct mail letter size campaigns." Is it generally correct that, even without an NSA, Bookspan will take similar actions in the future, *i.e.*, spend more on direct mail marketing than previously because of the inability to market using telephone solicitations? In other words, will sums that were formerly expended on telephone solicitations be diverted to direct mail? Please provide separate answers for each of 2005, 2006, 2007, and 2008.

In 2004 we moved a portion of the spending that was budgeted for telemarketing to direct mail, as I indicated in my response to OCA/Bookspan-T2-2(a). The budgets for 2005 and 2006 do not include any spending for telemarketing. Therefore, there is no money that can be diverted from telemarketing to direct mail.

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OCA/BOOKSPAN-T2-17. Please refer to your response to POIR No. 2, Question 1(c), which addresses the last sentence of Question 1(c).

- a. For Fiscal Years 2002, 2003, 2004, and 2005 to date, please provide the volume of Current Member mailings and New Member mailings by letter-shape and flat-shape.
 - b. For Fiscal Year 2005, please provide the projected volume of Current Member mailings and New Member mailings by letter-shape and flat-shape.
 - c. For Fiscal Years 2006, 2007, and 2008, please provide the projected volume of Current Member mailings and New Member mailings by letter-shape and flat-shape.
-
- a. This question is answered by my response to OCA/BOOKSPAN-T2-8. A motion for a protective order is pending with respect to OCA/BOOKSPAN-T2-8(b).
 - b. Please see my response to OCA/BOOKSPAN-T2-8.
 - c. Please see my response to OCA/BOOKSPAN-T2-8.

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OCA/BOOKSPAN-T2-18. Please refer to your response to POIR No. 2, Question 1(c).

- a. Please provide an example of a Current Member mailpiece to an inactive customer, a Current Member mailpiece to an inactive customer containing an insert promoting another Bookspan club(s), and a New Member mailpiece to an inactive customer.
- b. Please explain the difference (if any) between a New Member mailpiece and an “advance reenrollment solicitation.”
 - a. A Current Member mailpiece includes a document announcing the cycle's Featured Selection and a catalog. It also may or may not include a cross-club promotion, an offer to enroll a friend, and/or a third party (i.e., strategic partner) insert. Please see Library Reference BOOKSPAN-LR-1 for the requested New Member mailpieces. The samples of New Member inserts provided in that library reference are also representative examples of inserts in Current Member mailings.
 - b. Referring to my response to POIR No. 2, Question 1(c), an advance reenrollment solicitation is a type of New Member mailpiece.

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OCA/USPS-13. Please refer to the response to POIR No. 2, Question 1(c), where it states, “Are Standard Mail solicitation letters sent to members of one book club to join another second (unrelated) book club eligible to be counted and potentially receive discounts under the terms of this agreement?” The answer to that question is yes.” Also, please refer to the response of Bookspan witness Epp to POIR No. 2, Question 1(e), where it states, “Such a [Current Member solicitation mailing] may include inserts promoting another Bookspan club; regardless, a Current Member mailing would not be eligible for the NSA discount.” Please reconcile these two statements.

RESPONSE:

My response to 1(e) concerns periodic, current-member mailings that are primarily intended to describe to club members the current period’s featured selection (for which they can exercise their negative option) and to provide a catalog of other books available for sale to members of that particular club. The response indicates that, although these mailings may include inserts promoting another club, they are not sent for the purpose of membership solicitation and are not eligible Standard Mail solicitation letters under the NSA. (Arguably, this would have been clearer if the response had used the phrase “Current Member mailing” rather than “Current Member solicitation mailing.” As Standard Mail, of course, current-member mailings are soliciting sales, so the phrase is accurate in a general sense. It was clearly not intended to refer to the solicitation mailings under the NSA, as will be shown below.)

The Postal Service response to 1(c) concerns membership solicitation letters sent to non-members of a particular club, separately and apart from any periodic, club-member, book-selection mailings. Such letters, if mailed under the appropriate permit, are eligible Standard Mail solicitation letters under the NSA, as are solicitations of membership sent to people who are not members of any Bookspan club. This definition

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excludes regular club mailings to members of that club for the purpose of offering periodic book selections.

Please refer also to the Postal Service's proposed DMCS section 620.11:

Eligible Standard Mail under this section is defined as letter shaped pieces sent by Bookspan for the purpose of soliciting book club membership of persons who are not current subscribers to the book club or clubs Bookspan is promoting in the mailing or to book club members whose membership is expiring. Such pieces may be sent by Bookspan, by entities in which Bookspan holds controlling shares, or by their vendors on their behalf. Such letters may include promotions of Bookspan's strategic business alliances.

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OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-20. Please refer to your response to interrogatory OCA/USPS-T2-13.b.

What proof do you have that Bookspan did not plan to divert sums formerly spent on telephone solicitations to direct mail even without the NSA discount inducement? Please explain fully.

Response:

Budgets have been cut across marketing media. The decision to eliminate telemarketing was not the sole cause of these budget cuts. The decisions to cut the budgets were based on specific profitability goals, and campaigns that were expected to be less profitable were cut across all media.

**RESPONSE OF BOOKSPAN WITNESS EPP TO PRESIDING OFFICER'S
INFORMATION REQUEST NUMBER 1, QUESTIONS 4(A) AND 4(C)**

4. Bookspan witness Epp states that the significant drop in the before rates volume forecast for the first year of the agreement is "primarily due to the anticipated 5.4% increase in postage rates." Bookspan-T-2, page 11, lines 12-13.

- a. Please provide a set of before and after rates volume estimates (separately for letters and flats) for each year of the agreement assuming that rates remain at current levels.
- c. Please provide historical volumes that, as nearly as practicable, reflect the Standard Mail volumes (separately for letters and flats) of Bookspan in the year before and the year after the implementation of the R2001-1 rate increase.

Response of Bookspan Witness Epp:

a. When the company's budgeting process for 2006 began, the company already knew that there would be, or would highly likely be, a postal rate increase at some time during the company's fiscal year and, therefore, we did not prepare hypothetical budgets or volume forecasts. Our current best estimate of volumes to which the NSA would apply on the artificial assumption that there is no rate increase is as follows:

	No rate hike, no NSA		
	2006	2007	2008
Letters	80	78	78
Flats	140	135	135
Total	220	213	213

The estimated reduction of letter and flat volume in 2007 is not predicated on the assumption that there would be a rate increase in 2007; rather, it reflects my judgmental assessment that, but for the NSA, there would be some shift of letters and flats to electronic media in that year.

c. The question calls for Bookspan's *total* Standard Mail volumes "in the year before and the year after" the rate increase that took effect on June 30, 2001. While we set forth below the information that we have that may be responsive to the question, several cautions concerning the use of this data must be noted. First, the fiscal year calculation used by Bookspan does not coincide with that of the Postal Service. Therefore, the historic volumes of mail eligible for NSA treatment submitted in this case was recomputed to conform to the Postal Service's fiscal year. Although, pursuant to the NSA, Bookspan will compute volumes of mail eligible for NSA treatment in accordance with the Postal Service's fiscal year during the term of the agreement, it has not historically done so and does not have such records for prior years.

Finally, and perhaps most importantly, the volumes set forth below include letter mail sent by Bookspan to existing members and, therefore, ineligible for the NSA. The letter --flat split provided for 2001 and 2002 are estimates derived by splitting the overall total according to the ratio of flats and letters sent during the respective years. With these cautions, the information requested is as follows:

2001

Total:	422,445,784
Letters:	195,388,615
Flats:	227,057,169

2002

Total:	449,772,518
Letters:	218,144,051
Flats:	231,628,467

2003

Total:	392,888,414
Letters:	202,194,712
Flats:	190,693, 701

**RESPONSE OF BOOKSPAN WITNESS EPP TO PARTS OF PRESIDING
OFFICER'S INFORMATION REQUEST NO. 2**

I. Please refer to Request of the United States Postal Service for a Recommended Decision on Classifications and Rates to Implement a Baseline Negotiated Service Agreement with Bookspan, Attachment A (proposed Domestic Mail Classification Schedule language). Section 620.11 states in part: "Eligible Standard Mail under this section is defined as letter shaped pieces sent by Bookspan for the purposes of soliciting book club membership of persons who are not current subscribers to the book club or clubs Bookspan is promoting in the mailing or to book club members whose membership is expiring."

Also, please refer to Request of the United States Postal Service for a Recommended Decision on Classifications and Rates to Implement a Baseline Negotiated Service Agreement with Bookspan, Attachment F (Negotiated Service Agreement Between the United States Postal Service and Bookspan). Section I.A. states in part: "In the last three government fiscal years, Bookspan mailed an average of 87 million Standard Mail letters to consumers who were not the subscribers to the book club or clubs Bookspan was promoting in the mailing and to book club members whose membership was expiring. For the purposes of this agreement, the term 'Bookspan Letter Mail Solicitations' shall mean Standard Mail solicitation letters sent by Bookspan, by entities in which Bookspan holds controlling shares, and by their vendors on their behalf."

Finally, please refer to Response of Bookspan to Presiding Officer's Information Request No. 1, August 10, 2005, Response 4(c) states in part: "Finally, and perhaps most importantly, the volumes set forth below include letter mail sent by Bookspan to existing members and, therefore, ineligible for the NSA."

The three sources cited above appear inconsistent in describing what types of Bookspan's Standard Mail letters are eligible for mailing under the terms and conditions of the Negotiated Service Agreement. For example, the response to POIR No. 1 part 4(c) infers that "existing" members of a Bookspan book club are not eligible to receive mailings under the terms and conditions of the Negotiated Service Agreement. The DMCS language appears to describe mailings to existing customers. The contract does not place a restriction on mailing to existing customers. As another example, the contract appears to limit mailing to "solicitations" type mailings. However, it is not clear whether a mailing "to book club members whose membership is expiring," as written in the proposed DMCS language, must be a solicitations type mailing.

- a. If there is a conflict between the requirements appearing in the Domestic Mail Classification Schedule language (Request, Attachment A) and the requirements appearing in the Negotiated Service Agreement contract (Request, Attachment F), how is the conflict resolved? Does the Domestic Mail Classification Schedule language take precedence? Please explain.

- b. Please describe the characteristics of Bookspan's Standard Mail that is eligible for mailing under the terms and conditions of the Negotiated Service Agreement. Is eligible Standard Mail limited to "solicitations" mail? Please describe the characteristics of Bookspan's Standard Mail that is not eligible for mailing under the terms and conditions of the Negotiated Service Agreement.
- c. Please confirm that "book club members whose membership is expiring" are existing members of a Bookspan book club. If this is a correct interpretation, will such existing members be eligible to receive Standard Mail under the terms of the Negotiated Service Agreement? At what point in time is the status of a member of a Bookspan book club changed from an "existing member" to an existing member "whose membership is expiring?"
- d. Please confirm that Bookspan uses Standard Mail for solicitations to more than one book club. If this is a correct assumption, please indicate whether existing members of one book club may receive Bookspan solicitations for a second (unrelated) book club under the terms of the Negotiated Service Agreement.
- e. Witness Posch states that: "A current member receives 16 to 19 Standard Mail letters per year offering the cycle's Featured Selection as well as other club selections and offerings." Bookspan T-1 at 4.
 - i. Under what circumstances do these mailings solicit "book club membership of persons who are not current subscribers to the book club or clubs Bookspan is promoting in the mailing?"
 - ii. Under what circumstances are these mailings eligible for mailing under the terms of the Negotiated Service Agreement?

Response:

- b. (last sentence) Bookspan generates Standard Mail letters, flats and parcels.
 Bookspan Standard Mail flats and parcels are not eligible for discounts under the Negotiated Service Agreement. Bookspan's Standard Mail letter mail consists of Current Member letters, and New Member letters. What Bookspan means by "Current Member" letters are the periodic advanced announcements of its book club selections. Current Member letters are not eligible for discounts under the Negotiated Service Agreement.
- c. (last sentence) For purposes of this Agreement, the status of a member of a Bookspan book club changes from an "existing member" to an existing member "whose

membership is expiring” when his or her account has been inactive for a period defined by the club's rules. Bookspan's club rules permit, but do not require such a customer to be dropped from receiving the Current Member mailings announcing the cycle's Featured Selection. If such a customer has met their club purchase commitment, he or she may receive an offer to re-new their purchase commitment in the club (such as 4 books for \$1 in exchange for a new purchase commitment) inserted in a Current Member mailing announcing the cycle's Featured Selection. Such a mail piece would be ineligible for the NSA discount. Also, an inactive customer may separately receive an advance reenrollment solicitation which offers a new membership in the same book club, and which includes a new enrollment offer. Such a mailpiece would be eligible for the NSA discount. (An inactive customer may receive both New Member and Current Member mailings.) Customers may also call Bookspan to cancel their membership; re-enrollment solicitations sent to such a customer are eligible for the NSA discount.

d. (first sentence) Confirmed. Bookspan uses Standard Mail for solicitations to each and every one of its many book clubs.

e. (i) The primary purpose of a Current Member solicitation mailing (as that term is described in (b) above) is to offer the cycle's Featured Selection and other club selections and offerings to existing members. Such a mailing may include inserts promoting another Bookspan club; regardless, a Current Member mailing would not be eligible for the NSA discount.

1 CHAIRMAN OMAS: Is there any additional
2 written cross-examination for Witness Epp?

3 MS. DREIFUSS: Mr. Chairman?

4 CHAIRMAN OMAS: Ms. Dreifuss?

5 MS. DREIFUSS: There are some additional
6 answers that he provided to OCA under seal. As per
7 your instructions yesterday, I have made two copies of
8 them and put them in a sealed envelope that counsel
9 for Bookspan has in front of her.

10 I don't know whether you want me to hand it
11 to him at this time or at a later point this morning.

12 CHAIRMAN OMAS: Well, this is how I'd like
13 for it to be handled. Give the materials to the
14 witness for his review. Once he is satisfied that
15 they represent the responses to discovery then please
16 place them in a sealed envelope marked Evidence
17 Received Under Protective Conditions and provide them
18 to the reporter. The reporter will keep this material
19 separate, and it will not be transcribed.

20 You're saying that has been done?

21 MS. DREIFUSS: Well, I know that his
22 attorney reviewed it. I'm not sure if he had a chance
23 to review it.

24 CHAIRMAN OMAS: But I said let him review
25 it.

1 MS. DREIFUSS: I'm sorry about that. That
2 was my mistake.

3 CHAIRMAN OMAS: Let him do that.

4 (Pause.)

5 CHAIRMAN OMAS: Mr. Epp, have you had an
6 opportunity now to review the materials subject to
7 protective conditions that counsel wishes to move into
8 evidence?

9 THE WITNESS: Yes, I did.

10 CHAIRMAN OMAS: And is that the responses
11 you would provide today if those questions were posed
12 to you?

13 THE WITNESS: Yes, it is.

14 CHAIRMAN OMAS: Without objection, I have
15 admitted the packet into evidence, and the material is
16 subject to protective conditions identified by Witness
17 Epp.

18 (The documents referred to
19 were marked for
20 identification as Exhibit
21 Nos. OCA/Bookspan T-2-1,
22 T-2-8(b), T-2-10 and
23 T-2-11(b) and were received
24 in evidence.)

25 CHAIRMAN OMAS: Now this brings us to oral

1 cross-examination. One party has requested oral
2 cross-examination, the Office of Consumer Advocate.

3 Ms. Dreifuss, you may begin.

4 CROSS-EXAMINATION

5 BY MS. DREIFUSS:

6 Q Good morning, Mr. Epp. I'm Shelley Dreifuss
7 with the Office of the Consumer Advocate. I might as
8 well start with a procedural matter that Mr. Volner
9 raised earlier this morning.

10 Question 4(a) of Presiding Officer
11 Information Request No. 1 asks you to provide a set of
12 before and after rates volume estimates separately for
13 letters and flats for each year of the agreement
14 assuming that rates remain at current levels.

15 My understanding is that you did give the
16 before rates estimates, and I think what that meant
17 was you provided estimates assuming no omnibus rate
18 increase and assuming no NSA. Am I correct in that?

19 A Could you tell me what question you're
20 referring to exactly so that I can find it?

21 Q Sure. The presiding officer submitted
22 questions to Bookspan and the Postal Service in
23 Presiding Officer's Information Request No. 1, and the
24 particular question is Question 4(a).

25 Now, my understanding is that you provided a

1 set of volume figures in response to Question 4(a),
2 and I think that those responses are labeled No Rate
3 Hike, No NSA. Is that correct?

4 A That's correct.

5 Q Did you provide another table of estimates
6 that would be labeled No Rate Hike, but after an NSA
7 has been put into place?

8 A Could you repeat that?

9 Q Sure. I'm trying to find out if you have
10 ever provided what we call after rates estimates of
11 Bookspan's volume, but assuming no rate increase.

12 A No, I have not.

13 Q Did you come prepared to give me any figures
14 orally today?

15 A I do not have any figures because they would
16 be very hypothetical.

17 Q Do you believe that the before rates
18 estimates -- well, no. I won't ask that. That's
19 enough of an answer. Thank you.

20 Would you turn to your testimony at page 11,
21 please? At page 11 you explain in Lines 8 through 13
22 that you are expecting a significant drop in new
23 member standard mail letter and flat solicitations
24 because you anticipate a 5.4 percent increase in
25 postage rates. Is that correct?

1 A That is correct.

2 Q Do you know if Bookspan is unique in that
3 kind of response? In other words, do you think
4 Bookspan is very, very unusual in that it will tend to
5 mail less advertising and marketing mail following a
6 postage rate increase, or do you think that that's a
7 fairly common reaction?

8 A I'm not sure how other companies do their
9 marketing planning, but I would assume that an
10 increase in cost will lead to reduced marketing
11 activity.

12 Q Okay. Thank you. Now, you say in Lines 4
13 through 8 that Bookspan has not planned all your
14 potential marketing campaigns for the prospective
15 three year period.

16 Nevertheless, you gave estimates for those
17 periods, and I see those estimates at the top of page
18 11. Is that correct?

19 A That is correct.

20 Q Are they in a sense hypothetical estimates
21 of what Bookspan will do two years out, three years
22 out?

23 A Maybe it would help if I explain to you how
24 we do our marketing budget because for the year that's
25 here labeled as Fiscal Year 2006 we began that process

1 in May of 2005. That's when we start planning our
2 next year's marketing campaigns.

3 That process involves a number of
4 departments and is not concluded until October.
5 During that time we spend a lot of time and resources
6 on planning the campaigns for the following years. We
7 do not go through the same rigor for two years and
8 three years out. We simply could not because of the
9 resources involved.

10 However, here in this testimony I provided
11 the best estimates that we had for those years on the
12 basis of current assumptions with regard to
13 profitability, mailing universe, et cetera.

14 Q Am I right that for 2007 you don't have a
15 planned marketing budget at this time?

16 A If planned marketing budget means a
17 breakdown with detailed campaigns and mail times and
18 offers and clubs and formats, yes. That's correct.

19 Q In fact, if you follow the schedule you
20 followed for Fiscal Year 2006 you will begin the
21 process in May of 2006 for 2007?

22 A That's correct.

23 Q Is that correct?

24 A Uh-huh.

25 Q And you haven't started that process yet

1 because that's only going to begin in May of 2006?

2 A I think we're still in October 2005, so
3 we're not there yet.

4 Q Okay. Very good. And you anticipate going
5 through a similar marketing process and a budget
6 estimation process for 2008; that is, that marketing
7 budget would start to be planned in May of 2007,
8 correct?

9 A That's correct.

10 Q So that the estimates I see at the top of
11 page 11 at least for 2007 and 2008 are in some sense
12 hypothetical, aren't they?

13 A They are our best estimate that we have.

14 Q Right, but your best estimate is a
15 hypothetical estimate, isn't it?

16 A The best estimate is as good as we can do it
17 at this time.

18 Q Right. It's not a firm commitment I gather
19 to do any of the things that you're setting out at the
20 top of page 11. Is that correct?

21 A It is not because many of the assumptions
22 that flowed into the budget and estimates might
23 change.

24 Q Could you look at your testimony at page 10,
25 please? I see that for 2002, 2003 and 2004 you've set

1 out the volumes for -- these are actual volumes for
2 solicitation letters. Is that correct?

3 The numbers I'm looking at are 84.7 million
4 for 2002, almost 83 million in 2003 and about 94
5 million in 2004. Is that correct?

6 A Yes, it is.

7 Q Do you remember offhand what the actual
8 volume total is for 2005?

9 A I don't.

10 Q Okay. I obtained that from a filing that
11 the Postal Service made on October 18. They give a
12 solicitation letter volume of 79.4 million pieces.
13 Does that sound about right to you?

14 A Could you tell me where that is because I
15 don't have it in front of me?

16 Q Yes. Would you like me to show you a copy
17 of it? I can show you where I got it.

18 MR. VOLNER: Could you also show that to
19 counsel?

20 MS. DREIFUSS: I would be happy to. I
21 brought copies for everybody.

22 MR. VOLNER: Mr. Chairman, before counsel
23 proceeds I am not going to object to the question and
24 I'm going to allow him to answer it, but I do want the
25 record to be very clear that this is a response that

1 was provided by the Postal Service using Postal
2 Service data, and I don't know whether he can answer
3 any questions about it.

4 CHAIRMAN OMAS: Thank you.

5 Proceed, Ms. Dreifuss.

6 MS. DREIFUSS: Certainly.

7 BY MS. DREIFUSS:

8 Q If you look at Attachment 1, page 1 of 2, of
9 the document I just handed you and you look in the
10 fourth column labeled Letters and you go down four
11 rows you'll see Fiscal Year 2005. I see a volume
12 total there of 79.4 million letters. Do you see that?

13 A I see that.

14 Q Do you know if that's correct?

15 A I really could not say if that's correct.

16 Q Well, let me ask you more generally about
17 what's been happening with Bookspan's solicitation
18 volumes using letter shaped pieces.

19 I see that volumes were very close together
20 in 2002 and 2003 with 84.7 million pieces in 2002 and
21 nearly 83 million pieces in 2003. That's not a very
22 sharp decline, is it, from 2002 to 2003 in the use of
23 letters?

24 A No, it's not.

25 Q In 2004 there was a sharp increase in the

1 use of letters. The volume moved from about 83
2 million pieces to 94 million pieces, did it not?

3 A It did.

4 Q So you're just not really sure about the
5 2005 volume figure? You're not sure about whether
6 that's a correct figure or not?

7 A I hadn't seen those numbers before, and I'm
8 not sure if they come from Bookspan or from the Postal
9 Service so I can't really say much to that.

10 Q Okay. Let's now look at the flat size
11 volumes. They move from 215.3 million pieces in 2002
12 to 196.6 million pieces in 2003, and they drop further
13 in 2004, 164.4 million pieces in 2004.

14 That seems to be a much steeper decline in
15 flat size pieces than letter size pieces. Is that
16 correct?

17 A Yes, it seems that way.

18 MS. DREIFUSS: Now, I wanted to ask you the
19 reason for that but I'm going to pause for a moment
20 because I don't have a good sense either from you or
21 your attorneys about whether starting to discuss
22 specific marketing choices would be considered
23 confidential.

24 MR. VOLNER: Mr. Chairman, we have no
25 objection to general questions about specific

1 marketing choices. The only thing that really is
2 extremely sensitive is the particular data about
3 marketing choices and the particular data about mail
4 volume on a monthly basis.

5 We have provided aggregate numbers wherever
6 possible on the record. You're perfectly free to
7 proceed, and to the extent possible I really would
8 like to keep it on an open record.

9 MS. DREIFUSS: Okay. Thank you.

10 MR. VOLNER: I will signal if I start to get
11 concerned.

12 MS. DREIFUSS: Okay.

13 CHAIRMAN OMAS: Thank you, Mr. Volner.

14 MS. DREIFUSS: May I also mention to Mr. Epp
15 I certainly don't want to cause any concerns on the
16 part of Bookspan.

17 In participating in a proceeding like this
18 that's the one thing at least OCA can do for Bookspan
19 is not try to force them to reveal anything publicly
20 that would be damaging so, Mr. Epp, if you feel
21 uncomfortable you can also just so state to me.

22 BY MS. DREIFUSS:

23 Q I'm wondering why Bookspan's flat size
24 volume experienced declines of that sort. What went
25 on in the marketing department that caused Bookspan to

1 drop the number of flats from year-to-year as we see
2 on page 10?

3 A The most important thing is probably to look
4 at those numbers in the aggregate. Those numbers
5 reflect marketing decisions that we make. We do not
6 make the marketing decisions on the basis of the
7 format.

8 The marketing decisions are simply made on
9 the expected response rate and the expected
10 possibility of a particular campaign or a particular
11 mailing. As such, it can happen and it does happen
12 that monies are shifted between clubs, between offers,
13 between formats.

14 What we see here is a decline on the flat
15 size volume and with somewhat flat letter size volume.
16 Overall you will see that the volume has declined, and
17 that probably is a reflection that the campaigns that
18 we were planning did not have the profitability that
19 would be required in order for us to move forward with
20 the investment.

21 Q When you say the campaigns didn't have the
22 profitability, are you estimating profitability or are
23 you looking at campaigns at earlier years to assess
24 their profitability?

25 A We have built a tool to project individual

1 campaigns' performance. What we do is look at past
2 response rates. We look at past payment rates. We
3 look at past cost.

4 Then we take a new assumption for cost,
5 whether it's paper or book prices, royalty rates,
6 postage, media costs such as the cost of renting
7 lists. We put them together. We estimate a response
8 rate.

9 We then estimate the future contributions as
10 to the members generated from this campaign will
11 provide to Bookspan. We put those two things into
12 relation, and you get a return on that particular
13 investment.

14 If the campaign does not project to be
15 profitable it would not be executed. If it does meet
16 certain profitability thresholds then we would move
17 forward with it provided that we have the budget to do
18 so.

19 Q You mentioned that response rate is a
20 significant consideration in whether to move forward
21 with the marketing campaign. Are Bookspan's response
22 rates uniform, or do they tend to vary from campaign
23 from campaign?

24 A They vary vastly depending on the choice of
25 format, the choice of club, the choice of offer, the

1 choice of lists that were selected. They also have a
2 seasonality component.

3 Q Okay. Could you generalize what was going
4 on with letter formatted pieces as opposed to flat
5 size pieces, generally speaking, that caused Bookspan
6 to start to allow the flat sizes to drop off as they
7 did?

8 If you were going to summarize the most
9 important factors that we see in the volumes declining
10 from year to year for flats, what would those most
11 important factors be?

12 A There's probably two factors here. One
13 factor is a shift in the list selection that we had
14 where we turned more towards internal names and
15 therefore used relatively more letter size packages
16 than external packages, external meaning flat
17 packages, so what you see here is a shift between the
18 two formats.

19 The second factor you have is an increase in
20 2004 which was due to the reallocation of a particular
21 portion of the marketing budget that had previously
22 been allocated to a different channel than direct
23 mail.

24 Q The different channel that you're alluding
25 to in 2004, I guess that was not doing any more

1 telemarketing? Is that right?

2 A That's right.

3 Q Did you do any telemarketing in 2004?

4 A Very minimally at the beginning of the year.

5 Q Okay. In 2003 I guess from May to October
6 you had budgeted to do telemarketing and then found in
7 2004 you weren't able to do it?

8 A Again, we started the budget for 2004 in May
9 of 2003. At the time we were relying on our previous
10 response rate and results with telemarketing. Those
11 showed it to be a very profitable channel for us. As
12 a result, we had a significant portion of the budget
13 allocated to telemarketing.

14 As the year proceeded and the implications
15 of the Do Not Call list became visible to us and
16 response rates and completion rates and reach rates in
17 telemarketing, we then had to take some of the money
18 out, and it was reallocated to different channels.

19 MS. DREIFUSS: Okay. Mr. Chairman, I
20 actually do want to discuss the budgeting figures that
21 Bookspan provided under seal to OCA, but I won't
22 pursue that at this time.

23 It's related to the exchange we're having
24 here, but I know that was provided under seal so I'll
25 continue that later in the day when we start to speak

1 in a more confidential way.

2 BY MS. DREIFUSS:

3 Q Let me ask you. You just mentioned and I
4 think you said you had an internal mailing list and an
5 external mailing list. I'm not familiar with that
6 concept. What did you mean by that?

7 A Individuals who used to be members of
8 Bookspan book clubs are of course a universe that we
9 like to mail to.

10 What this means is if you had been a member
11 of a book club let's say three years or four years ago
12 if I send you another direct mail piece inviting you
13 to rejoin the club that you used to be a member of you
14 have a decent likelihood of responding.

15 As a company we have a large file of expired
16 members because we have been doing direct mail for
17 many, many decades. As such, we go back to those
18 files and try to resolicit those former members for a
19 new membership.

20 Q I see. While I'm on this point I'll just
21 ask it now. That kind of letter, if somebody on that
22 list, on your internal list, was no longer a member
23 and you send them a solicitation piece does Bookspan
24 view that as a qualifying solicitation piece for
25 purposes of the discount?

1 A Yes.

2 Q Now, you said you tend to mail letter size
3 pieces more to either the internal or external list
4 and flats more to the other. How does that work out?
5 Do you tend to mail more letters to the internal list
6 and more flats to the external list?

7 A Again, the decision is not based on the
8 format alone. What we do is we look at the past
9 response rates and we look at tests that we do.

10 Every mailing that we do we include certain
11 testing components. If we see that a particular
12 format works better on a particular list in a test
13 it's very likely that that format would be chosen for
14 the next campaign to a similar or the same list.

15 Q The fact that we see flat volumes dropping
16 off would suggest that flats were in some way less
17 successful for Bookspan over a period of years than
18 the letters proved to be since they're not dropping as
19 steeply. Does that sound like a correct conclusion?

20 A I'm not sure it's a correct conclusion. I
21 would say it reflects more relative performance.

22 It's not that they declined overall. It
23 could well be that we shifted some of this to the
24 letter size format for relative performance reasons.

25 Q Right. And the reason you would do that is

1 because overall you're starting to see letters be a
2 more effective and profitable format than flats?
3 Would that be correct? That's why you would tend to
4 shift flats from letters?

5 A Not necessarily. It could just as well
6 depend on the selection of the list that I referred to
7 earlier.

8 If your list segment is different, if you're
9 mailing to different names, it might be advantageous
10 to choose a different format. The format decision is
11 just one of the many decisions we have to make as we
12 plan a campaign.

13 MS. DREIFUSS: Mr. Chairman, I think I have
14 now arrived at that point in oral cross-examination
15 where I did want to discuss some of Witness Epp's
16 answers that were provided under seal so I would ask
17 that we take whatever steps are necessary to allow me
18 to do that.

19 CHAIRMAN OMAS: If I remember the procedure
20 correctly, everyone that stays in the room must sign a
21 statement of confidentiality. Those who do not wish
22 to sign a statement of confidentiality must leave the
23 hearing room. Is that correct, counsel? Counsel?

24 MR. VOLNER: Right.

25 CHAIRMAN OMAS: Before we go, Mr. Volner?

1 MR. VOLNER: Yes?

2 CHAIRMAN OMAS: I would like at this point
3 to enter the testimony of Witness Posch into the
4 record. Would you proceed, please? Would you ask
5 that his testimony be submitted?

6 MR. VOLNER: Yes. I've got it a little
7 screwed up here.

8 CHAIRMAN OMAS: Thank you. I do too. That
9 was the first thing on my script. When the witness is
10 sitting in the chair it's sort of confusing.

11 MR. VOLNER: That's what kind of flipped me
12 for a moment.

13 What I'm going to hand to the reporter, Mr.
14 Chairman, is an original and two copies -- I'm sorry;
15 an original and one copy -- of the testimony of Robert
16 Posch, which has been designated as Bookspan-T-1 and
17 was submitted to the Commission on July 14, 2005, and
18 separately two copies of a declaration of Robert J.
19 Posch, Jr. declaring under penalties of perjury that
20 the testimony was prepared by him or under his
21 direction, that if it was given orally it would be the
22 same, and that the interrogatory responses, of which
23 I'm also going to hand to the reporter, if asked
24 orally would also be the same today.
25 //

1 (The document referred to was
2 marked for identification as
3 Exhibit No. Bookspan-T-1 and
4 was received in evidence.)

5 CHAIRMAN OMAS: Are there any corrections or
6 additions you wish to make at this time?

7 MR. VOLNER: There are no corrections or
8 additions that I wish to make at this time in either
9 of those materials.

10 CHAIRMAN OMAS: Counsel, would you please
11 provide two copies of the corrected designated written
12 cross-examination of Witness Posch to the reporter?

13 That material is received in evidence, and
14 it is to be transcribed into the record.

15 (The document referred to was
16 marked for identification as
17 Exhibit No. Bookspan-T-1 and
18 was received in evidence.)

19 //

20 //

21 //

22 //

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BOOKSPAN-T-1

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

**RATE AND SERVICE CHANGES TO
IMPLEMENT BASELINE NEGOTIATED
SERVICE AGREEMENT WITH BOOKSPAN**

DOCKET NO. MC2005-3

**DIRECT TESTIMONY
OF
ROBERT J. POSCH, JR.
ON BEHALF OF
BOOKSPAN**

Communications with respect to this document may be sent to:

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Direct Testimony1
2
34 **1. Autobiographical Sketch**

5 My name is Robert Posch. I am Senior Vice President of Legal, Postal, and
6 Government Affairs at BOOKSPAN (a partnership owned by Time Inc. and Bertelsmann
7 AG.) I have been involved with legal, postal and government affairs for almost thirty
8 years.

9 I represent BOOKSPAN on the governing board of the Association for Postal
10 Commerce (PostCom), and am involved in various committees of the Direct Marketing
11 Association and the Association of American Publishers. Prior to representing
12 BOOKSPAN, I represented Doubleday & Co., Inc, Doubleday Book & Music Clubs, Inc.
13 (DBMCI) and Doubleday Direct Inc. for over 25 years in a similar capacity. I testified
14 before the Postal Rate Commission on behalf of the PostCom as an industry witness in
15 the proceeding to implement a Negotiated Service Agreement with Capital One
16 Services, Inc. (Docket No. MC2002-2). I have provided testimony on behalf of the
17 Advertising Mail Marketing Association (PostCom's predecessor) and Mail Advertising
18 Service Association International in the 1994 omnibus rate proceeding (Docket No.
19 R94-1), and was an industry witness at a Labor Arbitration Hearing on October 26,
20 2001. I am a native of New York State, and hold J.D. and M.B.A. (marketing) degrees
21 from Hofstra University. I have written five books and over 200 articles relating to
22 postal, marketing, and the law.

1 **2. Purpose of Testimony**

2 The purpose of my testimony is to explain and illustrate how BOOKSPAN and
3 others in the direct mail industry generate business for the Postal Service through a
4 massive multiplier effect through the mail stream. BOOKSPAN's business illustrates
5 how Standard Mail drives Postal Service volume and revenue growth. My testimony is
6 submitted in support of the BOOKSPAN NSA.

7 **3. History of the Company**

8 In 1926, Harry Scherman, a leader in the direct marketing industry, concluded
9 that rural America had been underestimated and under-served by publishers and
10 booksellers. In the days before retail chains, mall superstores, or Web sites, customers
11 were dependent on big city stores and mail order catalogues. Harry knew that he could
12 reach America's book readers by direct mail and established the **Book of the Month**
13 **Club®**.

14 At the same time, another savvy marketer, Samuel W. Craig, was developing a
15 club concept similar to the New York Theatre Guild and the book guilds of Europe.
16 Samuel launched **The Literary Guild®** in 1927. The two pioneering American book
17 clubs, **Book of the Month Club®** and **The Literary Guild®**, established themselves as
18 reliable sources of great, affordable books.

19 Soon after, The Doubleday One Dollar Book Club (founded by Doubleday & Co.)
20 arrived on the scene. Doubleday & Co. acquired **The Literary Guild®** in 1934 and,
21 along with The Doubleday One Dollar Book Club (now known as the **Doubleday Book**
22 **Club®**), continued to expand the book club business under Doubleday Direct, Inc.
23 Doubleday Direct, Inc. acquired the specialized and professional books clubs operated

1 Newbridge Communications in 1998 and renamed this operation Doubleday Select, Inc.
2 Doubleday Select, Inc. includes such prestigious clubs as **The Reader's**
3 **Subscription®**, **The Discovery Channel Book Club®**, and **The Nurse's Book**
4 **Society®**.

5 In March 2000, almost 75 years after the first American book clubs were born,
6 Doubleday Direct, Inc. and Book-of-the-Month Club Holdings LLC, formed a partnership
7 which brought all their illustrious book clubs together under one name—BOOKSPAN.
8 We are currently operating approximately 40 book clubs.

9 BOOKSPAN is dedicated to providing books through its various clubs, which
10 include those targeted at niche markets such as Science Fiction, Mystery, Military,
11 Christian, African-American, and Hispanic.

12 **4. The Mailstream Multiplier**

13 It is has been generally recognized in the mailing industry that growth in
14 advertising mail bolsters the growth of mail across all mail classes.¹ Nowhere is this
15 truer than at BOOKSPAN. While more and more communications and package delivery
16 move out of the mails and into electronic and competitive alternatives, BOOKSPAN's
17 members continue to value the at-home selection and delivery of books as was offered
18 by the original book club models. BOOKSPAN has millions of club members. The vast
19 majority of the correspondence between BOOKSPAN and its members takes place in
20 writing through the Postal Service. Our members typically prefer to pay through the
21 mail rather than by credit card, either online or over the phone.

¹ See, e.g., Gene Del Polito, "Viewpoint: Keep the USPS Alive with 'Three Point Five'", *AMMA Bulletin*, No. 42-98 (October 5, 1998).

1 To reach our potential customers, BOOKSPAN directly generates significant
2 volumes of solicitation mail. We use purchased external mailing lists, as well as our
3 own internal lists of former and existing members. Each solicitation letter, whether or
4 not it produces an addition to our member base, contributes to the mailstream. When
5 we successfully recruit a member, there is a significant multiplier effect inherent in
6 BOOKSPAN's business model: One BOOKSPAN solicitation generates anywhere from
7 50 to 60 mailpieces for each member that is successfully recruited. This number
8 includes significant numbers of parcels, a competitive market in which the Postal
9 Service is BOOKSPAN's carrier of choice. BOOKSPAN sends nearly 100 percent of its
10 parcels by the Postal Service.

11 Consider the following mailstream a typical member generates over the course of
12 one year:

- 13 a. The prospective customer receives a BOOKSPAN Standard Mail
14 solicitation.
- 15 b. The customer responds by enrolling in the club and placing an order by
16 First-Class Mail.
- 17 c. The initial enrollment order is fulfilled utilizing a large package shipment
18 which is shipped as Bound Printed Matter.
- 19 d. A current member receives 16 to 19 Standard Mail letters per year offering
20 the cycle's Featured Selection as well as other club selections and
21 offerings.
- 22 e. If the member refuses the cycle's Featured Selection, or wishes to order
23 other products, each response to the offer and/or order typically prompts

1 the member's return of a First-Class Mail Business Reply mailpiece, sent
2 16 to 19 times per year.

3 f. Each time the member accepts the cycle's Featured Selection or selects
4 another book, a parcel is shipped (Standard Mail parcels or Bound Printed
5 Matter) to fulfill the order.

6 g. Each time the member remits payment by mail, a separate First-Class
7 Mail letter is generated.

8 h. Members often place additional orders and generate additional parcels
9 and remittances between cycles.

10 i. BOOKSPAN notifies members if their order has been delayed.
11 BOOKSPAN sends members 15 day postcard courtesy notices and 30,
12 and 60 day courtesy letters, by First Class Mail.

13 j. Members send First-Class Mail correspondence to BOOKSPAN
14 concerning any number of reasons relating to their accounts, questions,
15 suggestions, letters regarding the books, and occasionally, complaints.

16 k. Some members fall behind or cease paying all together. This quickly
17 generates First-Class Mail letters seeking collection of amounts due.
18 Because collection letters must be rapid and compressed to succeed, we
19 send out millions of these each year. Each time a customer responds, the
20 customer sends a First Class Mail letter.

21 BOOKSPAN plans to maintain its current level of use of U.S. Postal Services as
22 described above, including (among other things) sending invoices and fulfilling orders
23 through the Postal Service.

1 **5. Indirect Effects on Mail Volume through Expansion of the Targeted List**
2 **Industry**

3
4 Since 1990, BOOKSPAN has launched three successful, targeted clubs to
5 Evangelicals, African Americans, and Hispanics. Each club provides a carefully
6 screened list of readers, which is highly desirable to other marketers. Each list rented
7 by another marketer leads to an immediate mailing by such marketer – and many
8 further mailings to those who positively respond to the offer. Thus, the multiplier effect
9 multiplies even beyond BOOKSPAN.

10 A reduction in postage means BOOKSPAN can test mailing lists -- particularly
11 external lists -- in promotions that would not otherwise meet BOOKSPAN's evaluation
12 criteria at current rates. The more lists we test, the more we grow our clubs and launch
13 new clubs. Successful clubs result in more desirable lists, which lead to further mailings
14 by outside marketers.

15 **6. BOOKSPAN History Shows A Discount on Promotional Mail Will Effectively**
16 **Increase Mail Volumes**

17
18 My colleague Matthias Epp describes, general terms, our proprietary system for
19 determining which of our marketing campaigns utilizing various advertising media get
20 executed. He explains how a discount on promotional mail affects the number of lists
21 that will fall within our marketing budget. I offer an additional perspective from
22 BOOKSPAN's history to illustrate how directly the Postal Service's pricing and
23 classification decisions affect our business.

24 Increasing the maximum weight for automation-rated letters has made it more
25 economically feasible for many direct marketers to expand their mailing efforts on
26 developing new lines of business. One of our predecessors, Doubleday Book and

1 Music Clubs, Inc., made good use of the increased automated letter weight in
2 developing a large member base for CROSSINGS®, BOOKSPAN's Christian family
3 interest book club, something that would have been difficult without the more favorable
4 automation rates. When the Postal Service increased the automated letter weight,
5 BOOKSPAN recognized the opportunity this discount afforded it, and was able to cost-
6 effectively include inserts promoting CROSSINGS® in its existing member promotional
7 mailings, as well as promote the club through inserts in promotions of related products.
8 The expanded eligibility for the automation discount provided the Postal Service with a
9 larger share of the letter mail stream for automated processing and distribution and
10 helped maximize its return on the barcode sorter investments. But the discount had a
11 further effect: CROSSINGS® was successfully launched in June 5, 1992 and is
12 approximately 850,000 members strong today, which translates into a considerable
13 amount of First-Class Mail, Standard Mail, and Package Services mail.

14 BOOKSPAN has a nearly 80-year history of targeting contemporary readers and
15 adjusting its targets as American demographics and buying habits change.

16 BOOKSPAN's business model is an ideal candidate to test focused rate incentives.

17 **7. Address Hygiene at BOOKSPAN**

18 We believe that our rigorous attention to address quality enabled the Postal
19 Service to enter into this NSA providing direct incentives for additional solicitation mail,
20 unlike the credit card industry NSAs that preceded BOOKSPAN's NSA, which required
21 an upgrade in address hygiene as a condition for receiving discounts on solicitation
22 mail.

1 BOOKSPAN practices rigorous, multi-step address hygiene. Our vender,
2 Experian, applies state-of-the-art list processing tools to achieve the maximum possible
3 deliverability results. BOOKSPAN uses the following address hygiene tools, proprietary
4 to Experian, to correct each and every list we use:²

- 5 a. Merge/Purge Duplicate Elimination: combines multiple customer or
6 prospect files and identifies and eliminates duplicates using a multiple
7 sequencing process;
- 8 b. Address Coding Manager: corrects ZIP Codes by completing ZIP+4,
9 appends carrier route code and CASS certifies names;
- 10 c. Advanced Address Correction/Apartment Append: an auxiliary address
11 correction system that processes non-ZIP+ 4 coded records and records
12 without valid apartment numbers against multiple external data bases after
13 Address Coding Manager is applied, in order to code more records with
14 ZIP+ 4 and an apartment number;
- 15 d. NCOA Link: a USPS licensed product that applies the USPS National
16 Change of Address database to update the list with new addresses;
- 17 e. Locatable Address Conversion System: a USPS licensed product that
18 converts a former rural style address to a street style address, correcting
19 delivery points that are altered when local governments rename or
20 renumber streets, typically as part of the conversion to the 911 emergency
21 system style addresses;

² The descriptions of these tools are based on M. Yapuncich and B. Ellerton, *List Processing Solutions: what you need to know before your next mailing*, <http://www.experian.com/whitepapers/index.html> (Experian 2002).

- 1 f. CCOA, PCOA and MCOA: Proprietary change of address databases
2 compiled by Experian from a variety of related industries, applied when no
3 NCOA link match is found.

4 Our solicitation mail address hygiene processing typically occurs around ten days
5 prior to mailing. In addition, BOOKSPAN uses the Address Change Service
6 endorsement on all of our member mail and packages, and on a majority of our direct
7 mail solicitations.

8 BOOKSPAN has given exceptional attention to address hygiene and intends to
9 continue doing so because it saves us money.

10 **8. Conclusion**

11 For the nominal incentives proposed in BOOKSPAN's NSA:

- 12 a. BOOKSPAN is given an incentive to grow its core business while shifting
13 more of its marketing efforts to direct mail.
- 14 b. The Postal Service receives the benefit of additional Standard Mail letters,
15 and the full benefit of BOOKSPAN's marketing successes in terms of
16 *multiplier mail growth of First-Class Mail, Standard Mail and Bound Printed*
17 *Matter.*
- 18 c. The Postal Service receives the third benefit of the growth of mail volumes
19 related to BOOKSPAN's list sales, and the growth of the targeted list
20 market.

21 In addition to the immediate direct and secondary effects on mail volumes
22 described above, this NSA and the process of negotiating this NSA has provided the

- 1 Postal Service with valuable, focused industry intelligence to utilize in planning similar
- 2 incentive rates around similar business models to compound its growth.

**POSTAL RATE COMMISSION
DOCKET NO. MC2005-3
DECLARATION OF ROBERT J. POSCH, JR.**

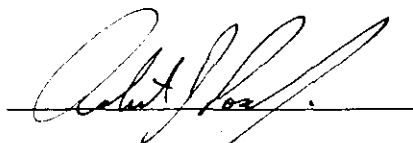
I hereby declare, under penalty of perjury, that:

The direct testimony of Robert J. Posch, Jr., on Behalf of Bookspan, BOOKSPAN-T-1, was prepared by me or under my direction, and

If I were to give this testimony before the Commission orally today, it would be the same.

The interrogatory responses filed under my name were prepared by me or under my direction, and

If I were to respond to these interrogatories orally today, the responses would be the same.

A handwritten signature in black ink, appearing to read "Robert J. Posch, Jr.", is written over a horizontal line.

Robert J. Posch, Jr.

DATE

10/19/05

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Rate and Service Changes to Implement
Baseline Negotiated Service Agreement
with Bookspan

Docket No. MC2005-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF BOOKSPAN
WITNESS ROBERT J. POSCH, JR.
(Bookspan-T-1)

Party

Interrogatories

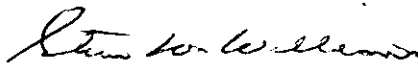
Newspaper Association of America

NAA/Bookspan-T2-2 redirected to T1
OCA/Bookspan-T1-1

Office of the Consumer Advocate

OCA/Bookspan-T1-1-3, 4a-b, d-e, g-k, 5-8
OCA/USPS-T1-10a, c, 13c-d redirected to
Bookspan-T1

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
BOOKSPAN
WITNESS ROBERT J. POSCH, JR. (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
NAA/Bookspan-T2-2 redirected to T1	NAA
OCA/Bookspan-T1-1	NAA, OCA
OCA/Bookspan-T1-2	OCA
OCA/Bookspan-T1-3	OCA
OCA/Bookspan-T1-4a	OCA
OCA/Bookspan-T1-4b	OCA
OCA/Bookspan-T1-4d	OCA
OCA/Bookspan-T1-4e	OCA
OCA/Bookspan-T1-4g	OCA
OCA/Bookspan-T1-4h	OCA
OCA/Bookspan-T1-4i	OCA
OCA/Bookspan-T1-4j	OCA
OCA/Bookspan-T1-4k	OCA
OCA/Bookspan-T1-5	OCA
OCA/Bookspan-T1-6	OCA
OCA/Bookspan-T1-7	OCA
OCA/Bookspan-T1-8	OCA
OCA/USPS-T1-10a redirected to Bookspan-T1	OCA
OCA/USPS-T1-10c redirected to Bookspan-T1	OCA
OCA/USPS-T1-13c redirected to Bookspan-T1	OCA
OCA/USPS-T1-13d redirected to Bookspan-T1	OCA

RESPONSE OF BOOKSPAN WITNESS POSCH TO REDIRECTED
INTERROGATORIES OF THE
NEWSPAPER ASSOCIATION OF AMERICA

NAA/Bookspan-T2-2: On March 7, 2003, Mr. Posch testified in the Capital One case (Tr. 10/1980-81) to his belief that Bookspan at that time was the 22d largest postal customer. Does Bookspan believe that it is still approximately the 22d largest postal customer today?

Response:

To the best of my knowledge, Bookspan is approximately the 21st largest postal customer.

OCA/BOOKSPAN-T1-1. Please refer to your testimony at page 2, lines 2-5. How widespread is the existence of the "massive multiplier effect" in the direct mail industry? Please explain. What percent of the direct mail industry generates business for the Postal Service through a massive multiplier effect.? Please explain.

Response:

There is essentially only one category of marketer that produces this "massive multiplier effect"—clubs that operate pursuant to the Federal Trade Commission's Negative Option Rule. See 16 C.F.R. § 425.1. Bookspan's business is conducted in accordance with this rule. Consequently, Bookspan must, at least 12 times a year (and usually 18), mail to its members an announcement providing them with the opportunity to decline that month's selection. If the customer does not decline the selection, it will be mailed.

This business model is different from "continuity plans," wherein the customer pays up front, usually by credit card, and is sent a product at intervals throughout the length of the program. Bookspan, like all negative option businesses, is prohibited from charging for its selections in advance. Its customers usually pay for selections by personal check sent through the mail. This stream of announcements, notices, selections, and payments, all required by the FTC's Negative Option Rule, adds up to the 50-60 pieces of mail each customer generates per year, as shown in my response to OCA/BOOKSPAN-T1-2.

Examples of negative option marketers include other "club" businesses (beer, fruit, wine, music, etc.). I have no statistics on the percentage of the direct mail industry that generates a multiplier effect for the Postal Service.

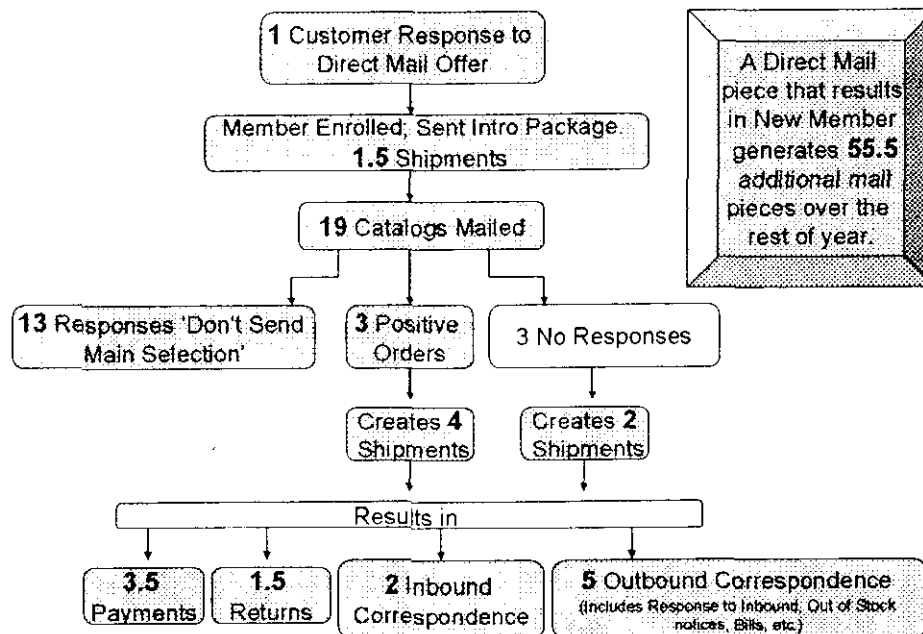
OCA/BOOKSPAN-T1-2. Please refer to your testimony at page 4, lines 6-7, where it states "One BOOKSPAN solicitation generates anywhere from 50 to 60 mailpieces for each member that is successfully recruited."

- a. Please confirm that the 50 or 60 mailpieces are generated over the course of one year. If you do not confirm, please explain.
- b. Does BOOKSPAN pay (or affix) the postage for the 50 or 60 mailpieces generated for each member that is successfully recruited? Please explain, and give examples of mailpieces where the member typically pays postage.
- c. How many solicitations are required to generate one new member? Please explain.

Response:

- a. Confirmed. The figure is an estimate based on my general experience. The actual number may vary in individual cases.
- b. Please see the flow chart below.

BOOKSPAN Mail for First Year Member



The following types of mailpieces referenced in the flowchart have postage paid by the club member:

- Responses to Bookspan's announcements of the main selection declining the main selection
- Catalog orders
- Payments for books received
- "Inbound" correspondence

For the remainder of the mail described in the flow chart, Bookspan pays postage to the Postal Service.

c. We assume the question inquires as to how many new member solicitations an individual receives before he or she becomes a BOOKSPAN member. BOOKSPAN does not track that information. If the question inquires generally as to our response rates, results vary by campaign and are proprietary and confidential. The typical response rate in the direct marketing industry is 2%. So, for every one hundred new member solicitations we send, we would hope for two membership applications to be returned. What a direct mail response rate will be for a particular campaign depends on many factors. Some examples of these factors include the day of the week on which the solicitation was received, time of year, current events, economy, previous experiences, the actual offer, the cost of product, etc.

OCA/BOOKSPAN-T1-3. Please refer to your testimony at page 4, lines 13-23, and page 5, at lines 1-20, which itemizes a. through k., the mailstream a typical member generates over the course of one year. Please allocate the 50 or 60 mailpieces generated by the typical member to items a. through k.

Response:

Please see the flowchart provided in response to OCA/BOOKSPAN-T1-2(b). As I explained in response to OCA/BOOKSPAN-T1-2(a) above, the actual numbers vary in individual cases. For example, consider Inbound and Outbound Correspondence. Our club members write to Bookspan for a wide variety of reasons, and Bookspan's Customer Service responds to each letter by First Class mail. Bookspan's Customer Service has several hundred different form letters that assist in generating a customer-specific response.

RESPONSE OF BOOKSPAN WITNESS POSCH TO INTERROGATORY OF THE
OFFICE OF THE CONSUMER ADVOCATE

OCA/BOOKSPAN-T1-4. Please refer to your testimony at page 4, lines 13-23, and page 5, lines 1-20, which itemizes a. through k., the mailstream a typical member generates over the course of one year. For Fiscal Years 2002, 2003, 2004, and 2005, please estimate the annual volume of mailpieces for items a. through k.

Response:

(a, b, d, e, g, h, i, j, and k)

Mail volumes were not reconciled with Postal Service permit data and reported according to the Postal Service fiscal year at the level of the types of mailpieces described in my testimony (at pp. 4-5). (The process of reconciliation is explained in Witness Epp's response to OCA/Bookspan-T2-1.) Thus, Bookspan cannot provide volumes at that level. Many of these types of mailpieces, however, are included in Bookspan's tallies of First Class letters, Standard Mail letters (other than New Member solicitations), and Bound Printed Matter. These three categories of multiplier mail were reconciled with Postal Service permit data and reported according to the Postal Service fiscal year.

Pursuant to POR-5 in this docket, information regarding Bound Printed Matter will be filed under seal as it is sensitive information relating to order fulfillment. (See the separately filed response to OCA/BOOKSPAN-T1-4(c and f)). The annual volume of Bookspan First Class and Standard Mail letters generated by Bookspan's members appears below. Estimates for Fiscal Year 2005 are unavailable.

Mail Volumes	FY2002	FY2003	FY2004
First Class letter-size	26,296,872	39,110,901	34,252,304
Standard Mail letters	124,029,386	126,770,515	122,916,542

OCA/BOOKSPAN-TI-5. Please refer to your response to OCA/USPS-TI-13(c). For 2004 and 2005 to date, please provide examples of every insert of a strategic business partner included in Bookspan's solicitation mailings.

Response:

As clarified by OCA/BOOKSPAN-TI-7, Bookspan understands these questions as requesting examples of New Member mailpieces. Bookspan is providing such representative examples of New Member mailpieces as are readily available as a Library Reference (BOOKSPAN-LR-1). New Member mailings with inserts were conducted only as a test, and complete mailpiece examples that include the actual inserts are not readily available. The inserts vary as to content, but representative examples are included in the form of printouts of PDF files. Once printed, an insert would be enclosed in a mailpiece comparable to the letter-sized pieces included in the Library Reference.

OCA/BOOKSPAN-T1-6. Please refer to your response to OCA/BOOKSPAN-T1-1, where you give examples of negative option marketers. Please provide the number of *negative option marketers that operate pursuant to the Federal Trade Commission's Negative Option Rule.*

Response:

Bookspan does not have this information.

OCA/BOOKSPAN-T1-7. Please refer to interrogatory OCA/Bookspan-T1-5. Please interpret the request made for “examples” to mean the entire mailpiece as it was mailed to prospective customers, including the strategic business partner insert, Bookspan’s solicitation material, and any other material contained in the mailpiece.

Response:

See the response to OCA/BOOKSPAN-T1-5.

OCA/BOOKSPAN-T1-8. Please refer to your response to interrogatory OCA/USPS-T1-13.d., redirected from the Postal Service and filed August 30, 2005. In that response, you state:

As Witness Epp explains in his testimony, Bookspan's marketing budgets drive its mail volume forecasts. I expect any new strategic business alliances to be required to operate within Bookspan's overall budgetary constraints. Therefore, to the extent that there could be future strategic business alliances that generate new mail volumes, these volumes are within the forecasts.

- a. Please confirm that any strategic business alliances resulting in inserts from another company being placed in a Bookspan solicitation mailpiece would involve (in most cases) some contribution from the strategic ally toward the expenses of the mailpiece. If you do not confirm, then please explain why Bookspan would find it advantageous to dilute its solicitation message without compensation from the strategic ally.
- b. If it is correct that, at least in some instances, strategic allies will help defray the costs of Bookspan's solicitation mailings, then isn't it true that Bookspan will be working with a larger marketing budget than if the solicitation mailings were limited to Bookspan's content alone? Please explain fully any negative response.
- c. For the period 2000 to date, please estimate the total number of Bookspan solicitation mail pieces. Please break down that volume figure into mailpieces containing material of a strategic business ally and mailpieces that were limited to Bookspan solicitation material. Further break down the volume of mailpieces containing material of a strategic business ally into the number of mailpieces for which the strategic ally helped defray the costs of mailing and the number for which the strategic business ally had material in the envelope but paid nothing to

- defray the costs of mailing. Please state all facts and assumptions upon which the estimate is based.
- d. For the period 2000 to date, please estimate the postage costs for mailpieces that included material from a strategic business ally. Also estimate the percentage of such postage costs that were paid by the strategic ally and the percentage of costs that were paid by Bookspan. Provide separately an estimate of the postage costs that were incurred during the same time period to mail solicitation mailpieces that included material only from Bookspan. Please state all facts and assumptions upon which the estimate is based.
- e. For the period of time 2000 to date, did strategic business allies bear all of the production expenses for the material concerning their separate products? If not, did Bookspan pay some of the ally's production expenses? Please explain why Bookspan would bear some (or all) of the production expenses of a strategic ally if, in fact, it has ever done so.
- f. For the period of time 2000 to date, did strategic business allies bear some (or all) of the production expenses for Bookspan's solicitation material concerning Bookspan's separate product? If so, was this considered part of the compensation to Bookspan for including the strategic ally's material in the Bookspan solicitation mailpiece? Please explain.
- g. For the period of the NSA, please explain the financial arrangements anticipated for mailpieces that carry the content of a strategic business ally and Bookspan. Please include in this explanation whether the strategic ally will be expected to

pay a portion of the postage on each mailpiece mailed under the strategic alliance.

What formula will be used to determine the ally's share of postage?

- h. Is one of the main purposes of a strategic business alliance to split the mailing costs with another company? If not, what are the main objectives of a strategic business alliance?
- i. Pursuant to the NSA, please estimate the percentage of projected solicitation mail volumes that will include inserts from strategic business allies. Please state all facts and assumptions upon which the estimate is based.
- j. Pursuant to the NSA, please estimate the percentage of postage costs incurred by solicitation mail pieces that will be paid by strategic business allies. Please state all facts and assumptions upon which the estimate is based.

Response:

- a. Confirmed.
- b. No. The marketing budget is set independently based on Bookspan's member acquisition goals.
- c-h. I assume that the many questions encompassed in each of these subparts are all inquiring regarding Bookspan's New Member solicitations. (Were these inquiries concerning Current Member pieces, the answers would be entirely irrelevant to this proceeding.) Bookspan was formed in March 2000 and we do not have annual volume data prior to Postal Fiscal Year 2001.

See Bookspan's responses to OCA/BOOKSPAN-T2-9 (a-c) and OCA/BOOKSPAN-T2-8(a), and OCA/USPS-T1-13(c). Also, see Bookspan's historic

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OCA/USPS-T1-10. Please turn to the "Request of the United States Postal Service for a Recommended Decision on Classifications and Rates to Implement a Baseline Negotiated Service Agreement with Bookspan," Docket No. MC2005-3, July 14, 2005. Attachment A, 620.11 states, "Such pieces may be sent by Bookspan, by entities in which Bookspan holds controlling shares, or by their vendors on their behalf."

a. Please provide a list of entities in which Bookspan holds controlling shares. For each such entity, describe the organization, lines of business, functions, and markets in which it operates.

c. Please explain what party or parties own and/or control Bookspan.

Response:

a. There are currently no active entities in which Bookspan holds controlling shares.

c. Bookspan is a Delaware general Partnership with partnership interests held by Doubleday Direct Inc. and Book of the Month Club Holdings LLC.

OCA/USPS-T1-13. Please turn to the "Request of the United States Postal Service for a Recommended Decision on Classifications and Rates to Implement a Baseline Negotiated Service Agreement with Bookspan," Docket No. MC2005-3, July 14, 2005. Attachment A, 620.11 states, "Such letters may include promotions of Bookspan's strategic business alliances."

c. Assuming that Bookspan is owned and/or could be owned by another corporation and/or group of corporations, could Bookspan develop strategic business alliances under the provisions of 620.11? If not, why not?

d. In addition to current strategic business alliances, is there the possibility of the development of future strategic alliances and, if so, please describe the types, purposes, and potential transactions of such alliances.

Response:

c. Bookspan is a partnership with ownership interests held by other entities. See response to OCA/USPS-T1-10(c).

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Attachment A, section 620.11 describes the mail volumes which Bookspan mails now or in the future that qualify for discounts under the agreement. Some of the Standard Mail solicitation letters sent by Bookspan (under Bookspan's permits) may include inserts of third parties with which Bookspan has a business relationship. Historically, when soliciting its new members, Bookspan generally has not included inserts for third parties in its own mailpieces. Nonetheless, this year, Bookspan is testing inserts. For purposes of reaching this Agreement, Bookspan mail with and without inserts were included in Bookspan's solicitation volumes. The sentence concerning "strategic business alliances" was included to ensure that Bookspan's Standard Mail *solicitation letters that include inserts would qualify for the NSA discount regardless of the relationship of the company to Bookspan*.

d. Conceivably, yes. Bookspan simply cannot speculate on the types of strategic business alliances that may develop in the future. Please see the response to (c) above. As Witness Epp explains in his testimony, Bookspan's marketing budgets drive its mail volume forecasts. I expect any new strategic business alliances to be required to operate within Bookspan's overall budgetary constraints. Therefore, to the extent that there could be future strategic business alliances that generate new mail volumes, these volumes are within the forecasts.

1 MR. VOLNER: There are also a couple of
2 interrogatory responses that Mr. Posch responded to
3 that were designated under seal.

4 Ms. Dreifuss, the ball is in your court.

5 MS. DREIFUSS: Ms. Brickman, Bookspan's
6 counsel, has those copies with her, and either she or
7 I can hand them to Mr. Epp to look over before we seal
8 them into the envelope.

9 CHAIRMAN OMAS: They're not Mr. Epp's.
10 They're Mr. Posch's.

11 MS. DREIFUSS: I'm sorry. Mr. Posch's. I
12 guess we need to have Mr. Posch take the stand.

13 CHAIRMAN OMAS: No.

14 MS. DREIFUSS: Okay.

15 CHAIRMAN OMAS: He's just going to look at
16 them now.

17 MS. DREIFUSS: Okay.

18 (Pause.)

19 CHAIRMAN OMAS: I am now admitting into
20 evidence the material subject to protective conditions
21 identified by Mr. Posch.

22 //

23 //

24 //

25 //

1 (The documents referred to
2 were marked for
3 identification as Exhibit
4 Nos. OCA/Bookspan T-1-4(c)
5 and (f), OCA/USPS-T-1-10(b)
6 and (d), OCA/USPS-T-1-13(a)
7 and (b), and OCA/USPS-T-2-14
8 and were received in
9 evidence.)

10 CHAIRMAN OMAS: Okay. Now we're back to
11 those who have signed the form and those who have not.
12 Those who have not, please remove yourself from the
13 hearing room.

14 Do we have forms for them to sign? Just a
15 minute. Those of you who wish to stay, we do have
16 forms for you to sign.

17 MR. VOLNER: Mr. Chairman, I think we can
18 simplify this a little bit. To the extent that we're
19 dealing with counsel to Intervenor I don't think they
20 need to sign the form. They're bound by the rules,
21 and the rules are what they are.

22 They can't get access to the documents, and
23 what they hear in the air is not going to be of any
24 great consequence. I mean, they can try to take
25 notes, but in the case of counsel they're bound by the

1 rules. They're bound by the canons of ethics.

2 Of course, obviously Commission staff
3 doesn't have to sign, so the only thing is if there
4 are people who are either principals or economists or
5 consultants or something of that sort in the room.
6 That really is the only place where we need to protect
7 it at this point.

8 CHAIRMAN OMAS: Counsel?

9 MR. VOLNER: Yes. I'm satisfied.

10 CHAIRMAN OMAS: If counsel for Bookspan is
11 all right with it, we shall --

12 UNIDENTIFIED VOICE: Can we go off the
13 record?

14 CHAIRMAN OMAS: Off the record.

15 (Whereupon, at 10:20 a.m. the open session
16 in the above-entitled matter was concluded, and the
17 hearing moved to closed session.)

18 //

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23 //

24 //

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REPORTER'S CERTIFICATE

DOCKET NO.: MC2005-3
CASE TITLE: Rate and Service Changes to Implement
Baseline Negotiated Service Agreement with
Bookspan
HEARING DATE: 10/20/05
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are
contained fully and accurately on the tapes and notes
reported by me at the hearing in the above case before the
United States Postal Rate Commission.

Date: 10/20/05


Official Reporter

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